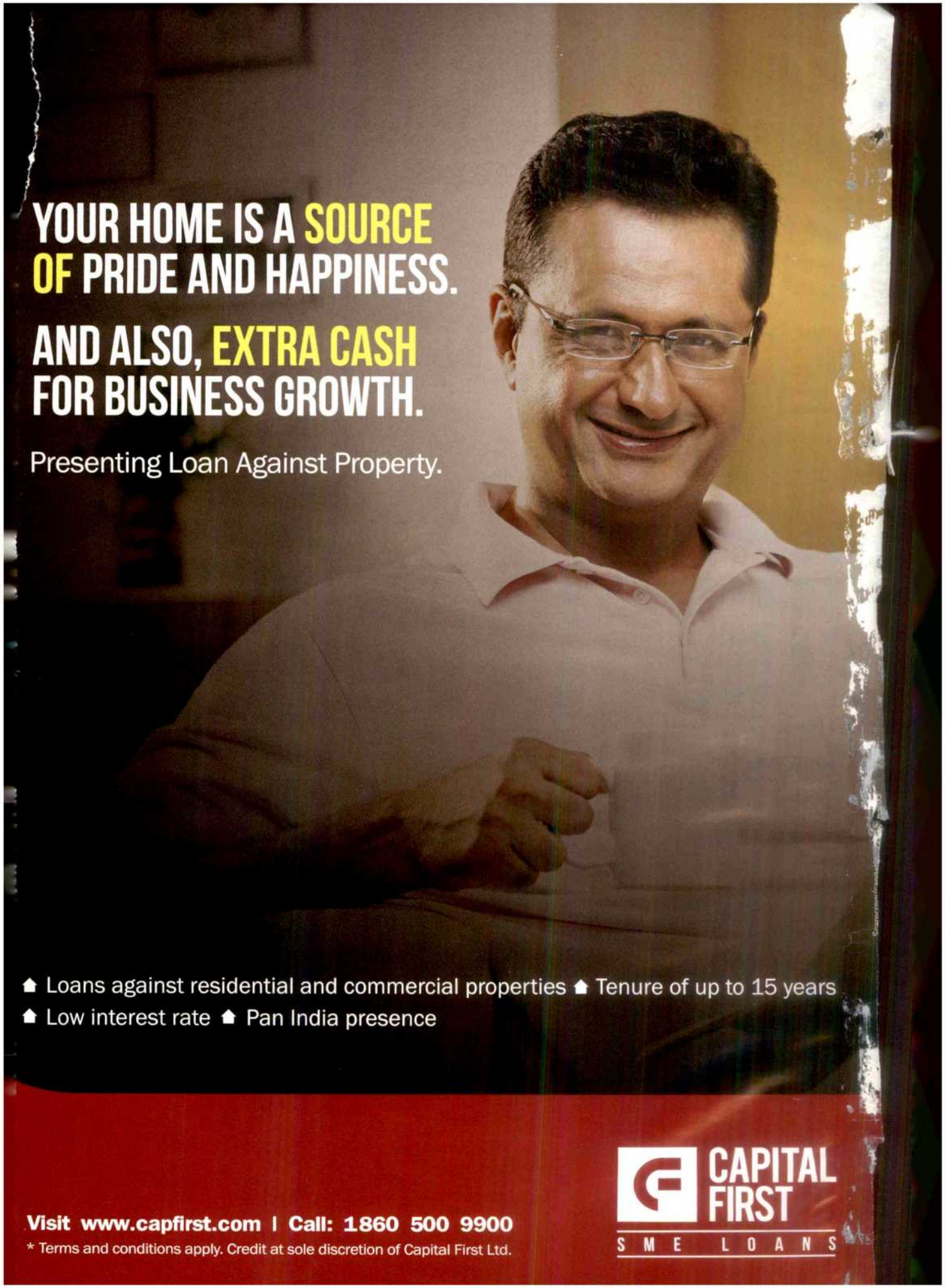
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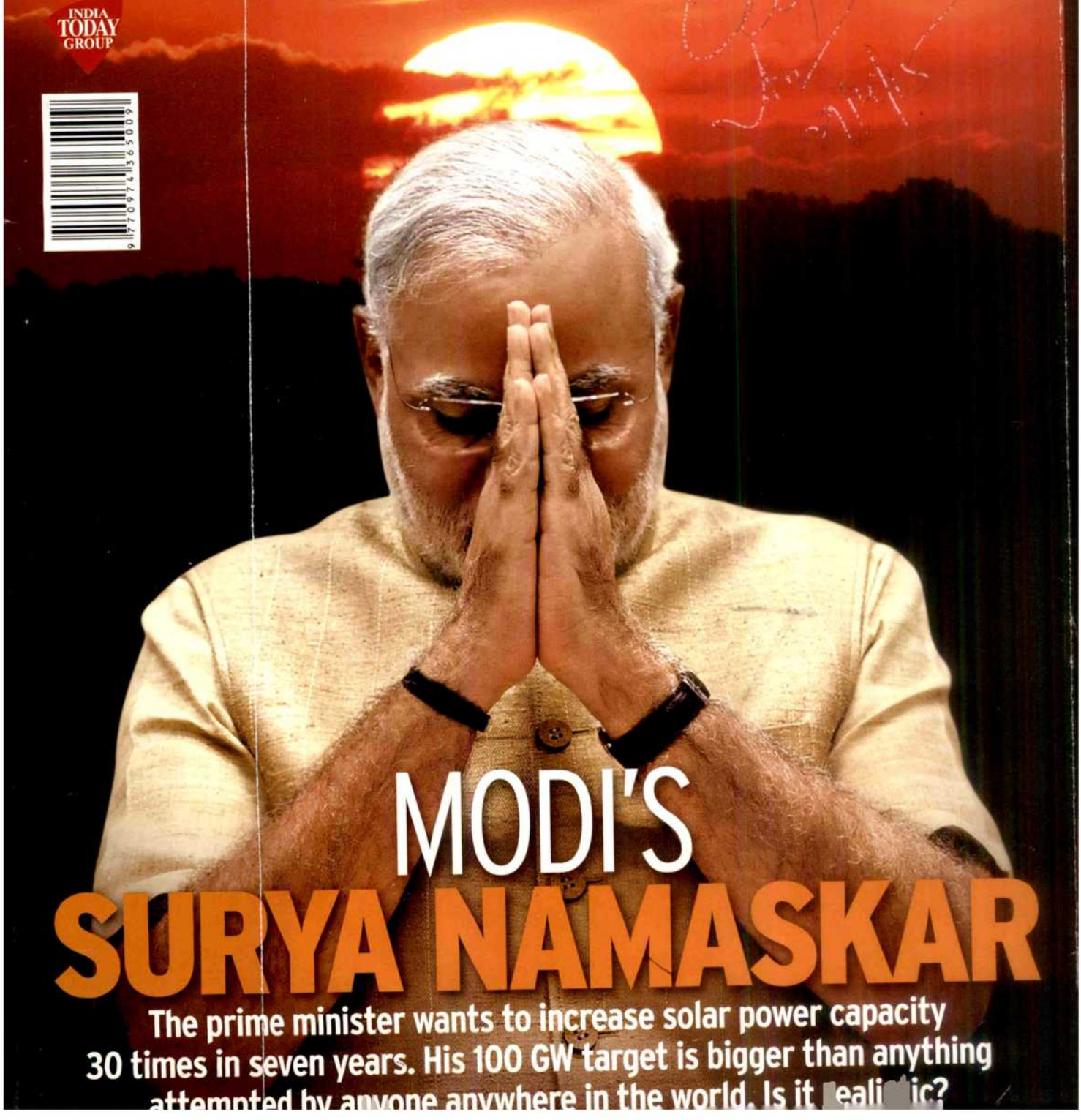

# MODI'S SURYA NAMASKAR

The prime minister wants to increase solar power capacity 30 times in seven years. His 100 GW target is bigger than anything attempted by anyone anywhere in the world. Is it realistic?

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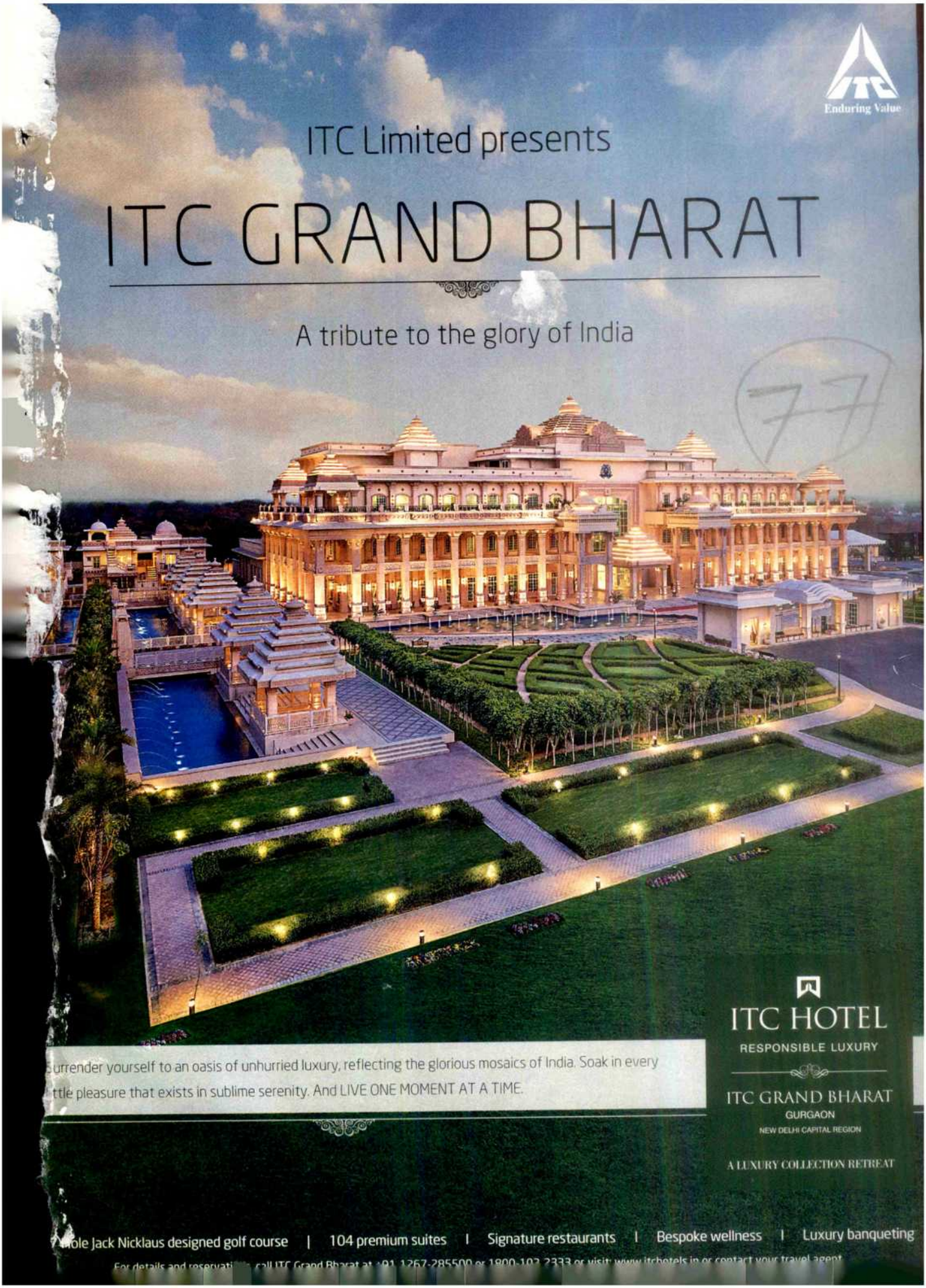
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# From the Editor

## Aiming for the Sun ₹34,850

One of Prime Minister Narendra Modi's biggest strengths is that he does not believe in incrementalism when he sits down to formulate policy. He thinks big – and his targets are almost always humongous. Witness his targets for Make in India, for coal mining and thermal power production, as well as the goals he has set in a range of other areas.

Even by his standards, though, the target for solar power by 2022 is colossal. By that year, he wants to have an installed and working capacity of 100 GW in solar. India's solar capacity at the moment is 3.3 GW. Currently, the total installed solar capacity in the world is 177 GW. The nation producing the highest amount of solar energy today – Germany – has only 38 GW. No other country, including the US, has set itself such an ambitious goal. Meeting that target for India would mean adding 15 GW of solar capacity every year. The highest addition that any country has done in a single year is 12 GW. The feat was achieved by China. But even China has not been able to repeat it.

There is much to be said in favour of improving our solar energy capacity. Most parts of India get abundant sunlight throughout the year. Solar energy costs are dropping dramatically as technology improves – it used to cost ₹15 or more to produce 1 kWh of energy five or six years ago, now it costs ₹6-7. In another five years, the cost of solar energy could well fall to the levels of thermal energy, or even lower. Also, solar is a great solution for remote areas – you could use rooftop panels to produce enough power for communities that are not serviced by the main grids. Finally, solar is clean energy – it will do wonders to our environment if we reduce our dependence on coal-fired plants.

But solar energy also has myriad problems that make it less practical than conventional energy. First, it works only when the sun is shining – which means at night, you cannot depend on solar power. Nor can you depend on it during monsoons or winters when there might be fog. This means you have to "blend" it in your grid with thermal energy – and that poses all sorts of practical problems. Then, large-scale solar energy farms require huge tracts of land. Per GW, solar requires twice as much land as a conventional coal-fired power plant. Finally, capital costs of solar installation are higher.

Solar experts and bureaucrats privately say that 100 GW by 2022 seems an impossible dream. Sure, a technology breakthrough could alter the equation. But at the moment, a more practical target would be half or one-third of the number Modi has set. As an aside, the UPA 2 government had set a target of 20,000 MW (20 GW) by 2022, and that was also considered by many to be a stretch target.

My view is that even if Modi does not achieve 100 GW – and ends up with only half that – it would still be a giant step forward. And no mean achievement for any government in the world.

Prosenjit Datta

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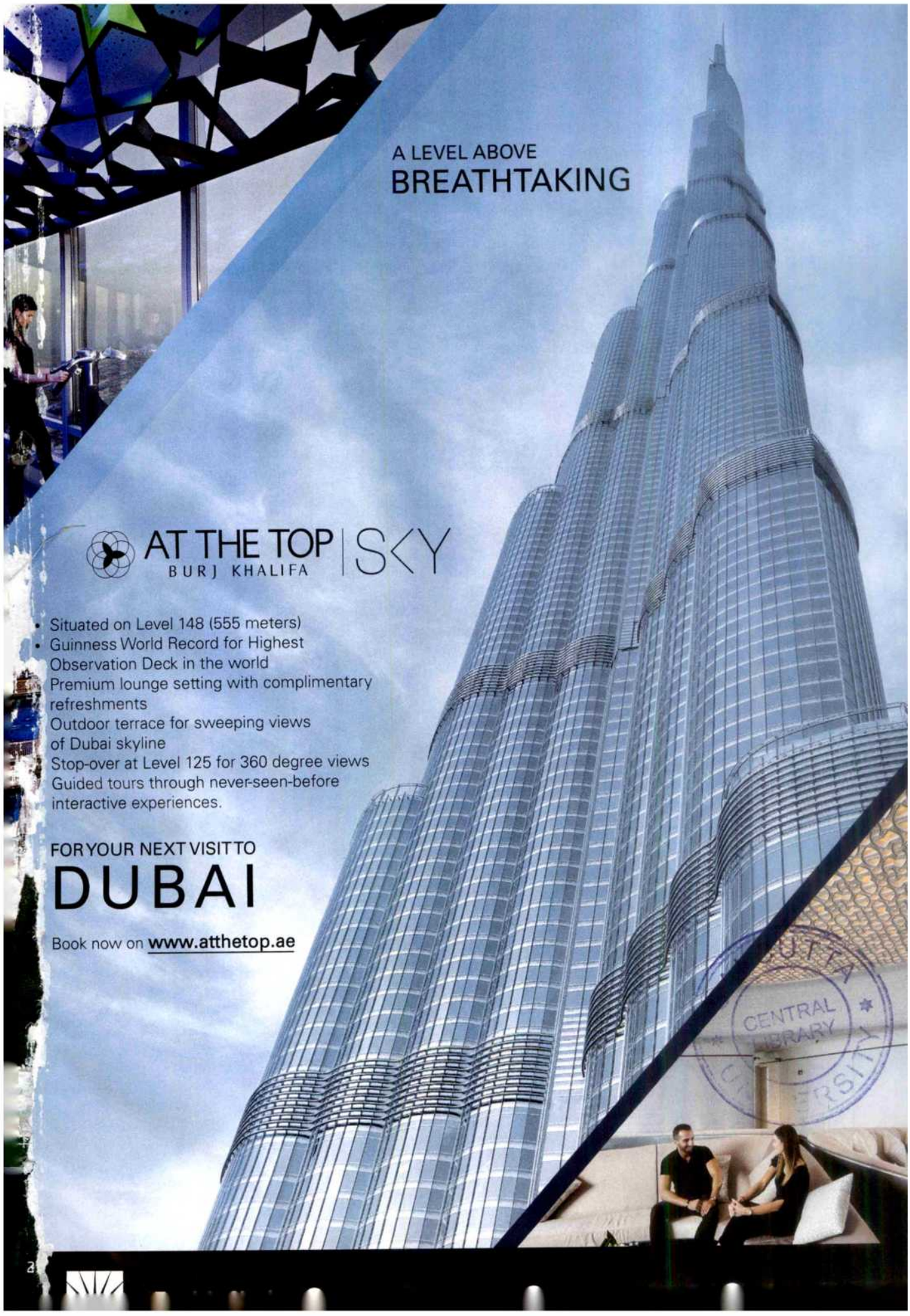
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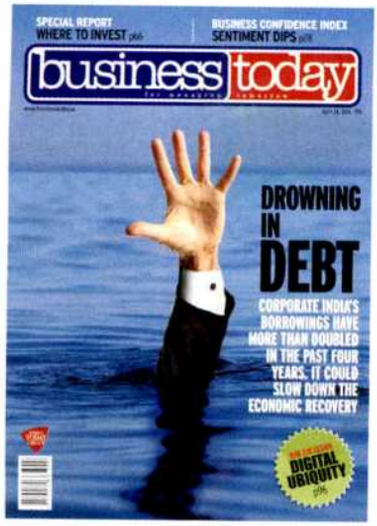


## Bank NPAs: A Catastrophe?

This refers to your cover story *Wrecked by Debt* (April 26). The piece is, indeed, an eye-opener. If the present state of affairs and the trend of rising non-performing assets (NPAs) continue, our banking sector may soon be on the edge of a major financial disaster. Necessary strategies need to be planned and implemented soon to prevent any such catastrophe. These NPA accounts can be avoided by properly studying projects before taking a lending decision, ensuring compliance of all terms and conditions of sanction, and closely monitoring accounts. So far, banks have referred NPAs of 647 companies, amounting to ₹4,52,940 crore, to the CDR Cell as of December 31, 2014. Like good doctors, let the banks not treat the symptoms but treat the disease itself, so that deterioration in the quality of assets is checked in time and further damage is averted.

**J.S. Broca**, *New Delhi*

## A Win-win Approach

This refers to the interview with Kalyani Group Chairman Baba N. Kalyani (April 26). Definitely, he is an entrepreneur of substantial achievements. He is forthright and pragmatically hopeful of doing ethical business with our defence resourcing channels. Prime Minister Narendra Modi in his speech at Aero India 2015 had also pointed to his business acumen. His keenness for simplified systems and procedures in the defence procurement supply chain are worthy of support. After all, it will be a win-win approach both for the government and Indian private manufacturers of defence equipment. His ₹1,000-crore investment plan indicates that though his defence ventures have not met with the desired results, he is passionately aiming for success in the future. Kalyani is hoping to substantially increase the avenues for supplying arms and ammunition to the defence sector.

**B. Rajasekaran**, *Bangalore*

## Best Deal for a Prudent Investor

This refers to your special report on investment, *Where to Invest in 2015* (April 26). The right strategy for a prudent investor is to invest in different kind of instruments, so that in case some money is lost, it will still be a small amount. The safest avenues are tax-free bonds, public provident fund (PPF), post office saving schemes like National Savings Certificate and Kisan Vikas Patra. A little amount can also be invested in share market.

**Mahesh Kumar**, *New Delhi*

*Send all your comments to:* editor.bt@intoday.com

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**India to have more modern, friendly tax regime, says Finance Minister Arun Jaitley.**

I think our government takes more taxes than the British era. - **Avik Mukherjee**, *@avik_blitz*

**RBI Governor Raghuram Rajan receives threatening e-mail, security beefed up.**

It's sad that the best and the brightest, whose good work impacts billions, are subjected to this. - **Surendra Vijen**, *@SurendraVijen*

**Need to make agriculture profitable to improve lives, says Madhya Pradesh Chief Minister Shivraj Singh Chouhan.**

Fifty per cent of labourers are dependent on agriculture. Certainly, farming should be profitable. - **Chintamani Dwivedi**, *@97b297ac03b448a*

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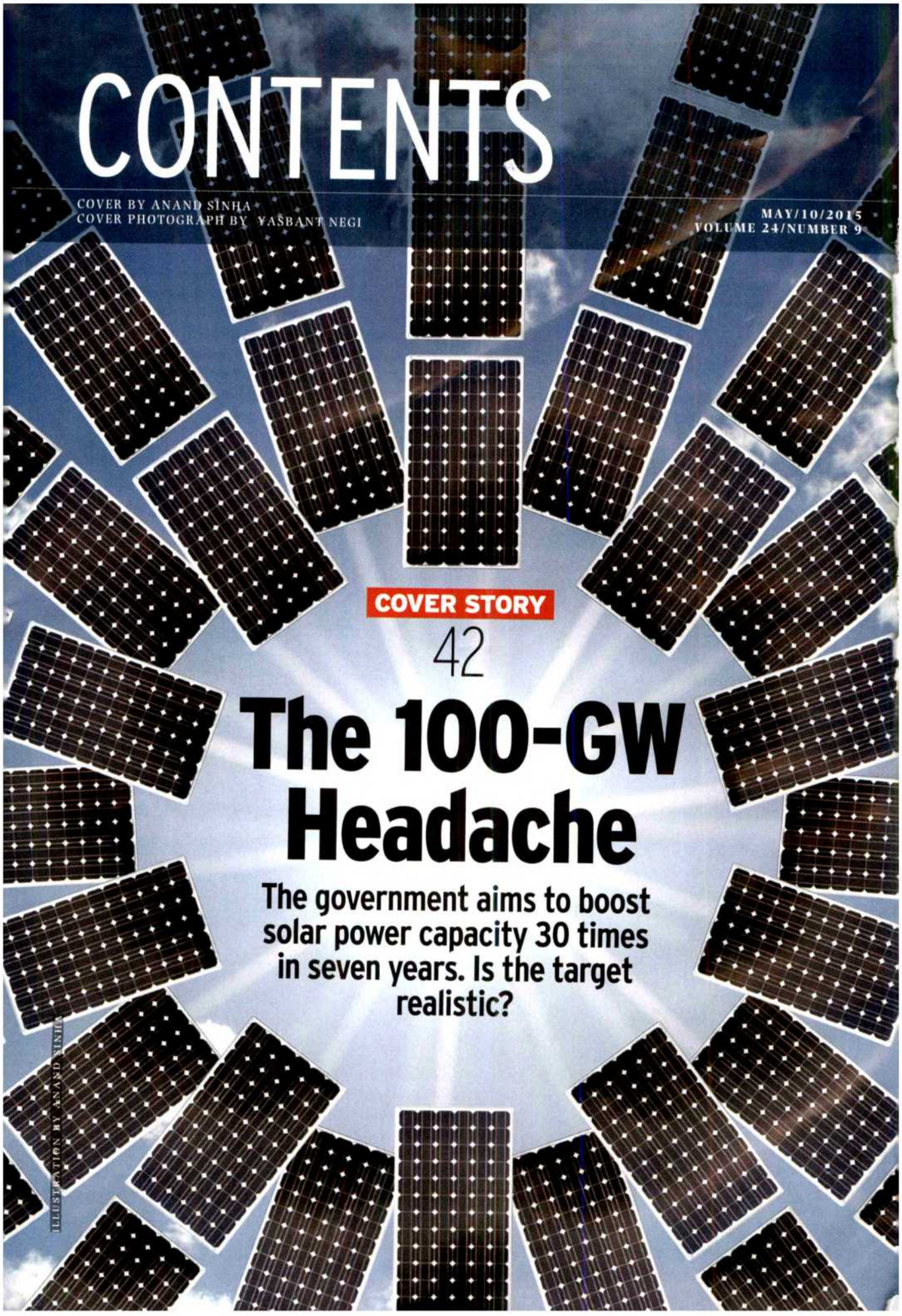

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**"Companies are struggling to decide where to invest for CSR"**
BCG India's Seema Bansal speaks with **Shamni Pande** about CSR strategies and how profit should ideally not be a bad word in CSR.
businesstoday.in/bcg-bansal

**PERSPECTIVE**

**At the Forefront**
TCS will have to run harder to stay ahead of the pack, says **Venkatesha Babu.**
businesstoday.in/tcs-results2015

**NEWS**

**NRI Fund Flows**
India tops in global remittances in 2014: World Bank.
businesstoday.in/remittances-india2014

**First-mover Advantage**
Indian banks make a beeline for space in Gujarat's Gift City.
businesstoday.in/giftcity-banks

**Ready for the Race**
Bajaj launches new range of 'Adventure Sports' Pulsar motorcycles.
businesstoday.in/bajaj-newbikes

**Under Pressure**
India Inc's top-line growth to skid to seven-quarter low in Q4FY15, says CRISIL Report.
businesstoday.in/indiainc-growth

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**A Gentle Nudge**
**Chitra Narayanan** explains how marketers are changing your habits, from forcing you to shop only through mobile phones to doing web check-in.
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AJAY THAKURI

"This is just the beginning. We may consider banning slaughter of other animals too"

Maharashtra Advocate General Sunil Manohar struck fear in the hearts of his state's carnivores while speaking in the Bombay High Court about the beef ban that covers cows, bulls and bullocks

"I have spoken to [the] Advocate General. He has said that his statement in the court yesterday has been misinterpreted"

Chief Minister Devendra Fadnavis soothed nerves in the the Assembly

## BREAKING SHACKLES

Toyota has ended a three-year, self-imposed ban on expansion by announcing a new $1 billion plant in Mexico, reports the BBC. It will also add a new product line to an existing factory in Southern China. Toyota stopped investing in new facilities after a series of massive recalls.

## IT'S JAPAN AGAIN

Japan has become the biggest foreign creditor to the United States government for the first time since the 2008 financial crisis, toppling, China, reports *The Wall Street Journal*. A sea of Japanese buyers bought US Treasurys after Japan's economic policies drove down interest rates there.

## TOO MORAL? AMERICANS?

Toronto-based Avid Life Media, which owns *AshleyMadison.com*, the website for people cheating on their spouses, wants to do an IPO in London rather than New York because the Americans are too moral. "...it's been difficult in North America to find the support to go public," Christoph Kraemer, the company's head of international relations, told Bloomberg. It does not quite add up. Half of AshleyMadison's 36 million users are in the United States. Maybe they won't come out of their dimly lit rooms.

"...there's a corporate war going on between a media house and a telecom operator which is confounding already difficult matters"

TRAI Chairman Rahul Khullar adds a can of worms to the debate on net neutrality, in *The Indian Express*

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# CALENDAR

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## FROM JAPAN WITH LOVE

**WHAT:** Japanese Prime Minister Shinzo Abe's US tour
**WHEN:** April 26-May 3

**WHAT TO LOOK FOR:** Abe will become the first Japanese leader to addresss a joint session of the US Congress. The visit will focus on deepening trade and military ties. Beijing and Seoul will be closely watching what Abe says in a special statement to mark the 70th anniversary of the end of World War II, during which its Asian neighbours suffered from Japanese militarism.

AJAY THAKURI

20 - 13

## BUDGETING FOR BILLS

**WHAT:** Budget Session Part II
**WHEN:** Lok Sabha meets from April 20 till May 8; Rajya Sabha from April 23 till May 13.

**WHAT TO LOOK FOR:** The government will renew its efforts to reach out to regional parties for passage of the land bill, which is facing stiff opposition from non-NDA parties. Both the Houses are expected to have 13 sittings each in the second part of the Budget session.

3

## ROAMING RULES

**WHAT:** Full mobile number portability
**WHEN:** May 3

**WHAT TO LOOK FOR:** MNP will enable mobile users to retain their phone number while moving to a new city, even if they change their service provider. This will require more investments to tweak the network as a phone number is currently locked to a particular circle. Telcos may have to take a hit in revenue generation.

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## CORPORATE SCORECARD

**WHAT:** Infosys Q4 results
**WHEN:** April 24

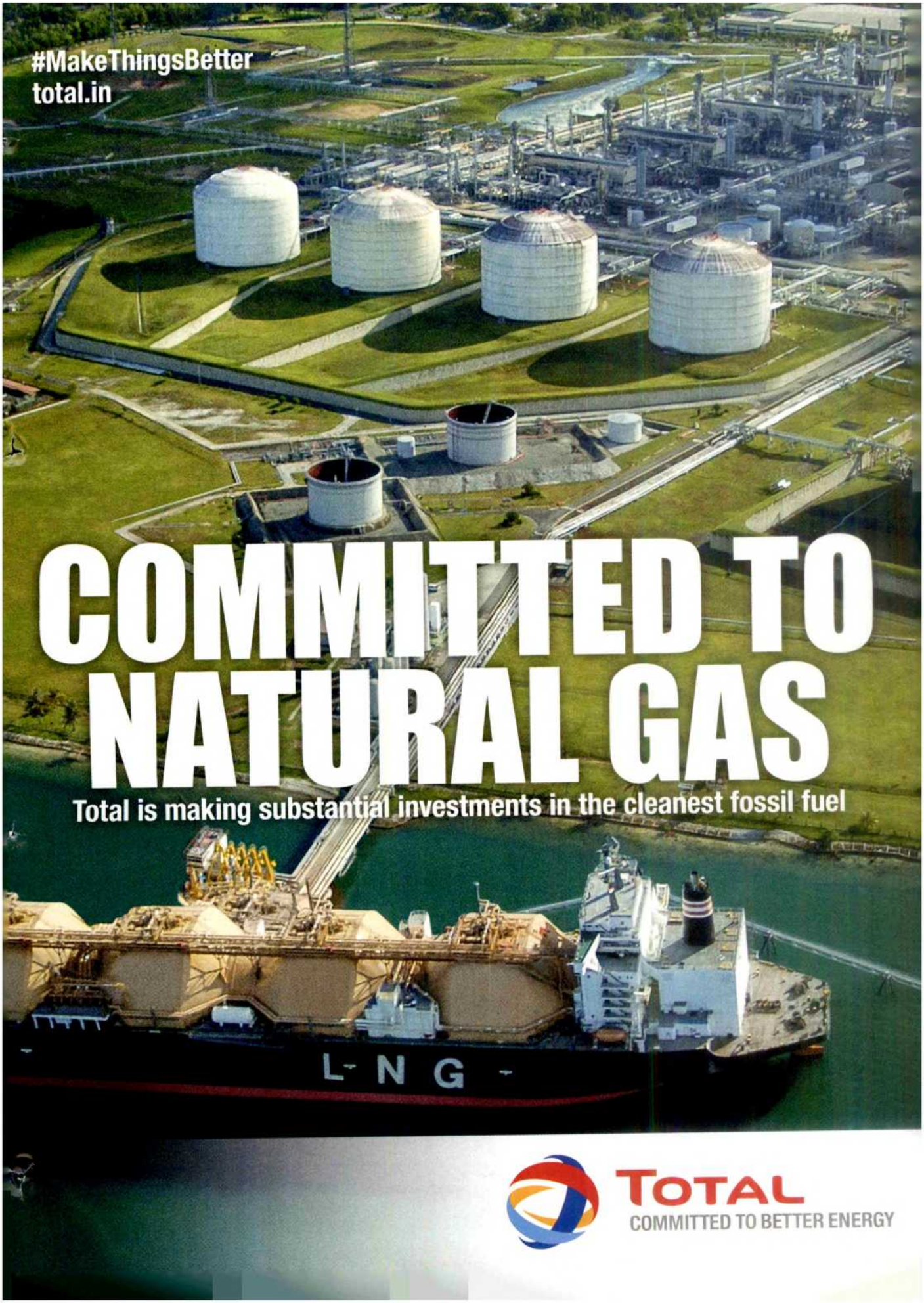
**WHAT TO LOOK FOR:** With TCS flagging off the results season, all eyes will now be on Infosys. The company's CEO Vishal Sikka will likely articulate the strategy for financial year 2015/16.

24

## RADIO NEWS

**WHAT:** FM Phase III e-auction
**WHEN:** From April 24

**WHAT TO LOOK FOR:** The first batch of FM Phase III comprises 135 channels in 69 existing cities of Phase II. Every applicant shall be allowed to run not more than 40 per cent of the total channels in a city, subject to a minimum of three different operators in the city.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*"In order to improve the efficiency of monetary policy transmission, the* ***RBI will encourage banks to move in a time-bound manner to marginal cost of funds-based*** *determination of their base rates. The detailed guidelines would be issued shortly"*

*Raghuram Rajan, Governor, RBI*

RACHIT GOSWAMI

# Divided We Stand

## Banks differ with the RBI governor on the approach to pricing loans. By ANAND ADHIKARI

Till a fortnight ago, banks were reluctant to bring down interest rates despite the 50 basis points (bps) cut in the repo rate since January. This made Reserve Bank of India (RBI) Governor Raghuram Rajan do some straight talking in the April 8 monetary policy review. There was no point in reducing the repo rate further till banks passed on the benefits of earlier cuts to customers, he observed.

"I don't see an environment where credit growth is tepid. Banks are sitting on money so to speak and their cost of funding, their margin

cost of funding, has fallen. The notion that it has not fallen is nonsense," he added.

Within hours, the State Bank of India (SBI), the country's largest bank, reduced its base rate by 15 bps to 9.85 per cent. The base rate, or the minimum lending rate, is used to price loans. In response, ICICI Bank, HDFC Bank and Axis Bank also cut their base rates.

Borrowers often wonder why banks do not pass on benefits of repo rate cuts immediately. The RBI, too, would like faster rate transmission. But banks say it's easier said than done.

At the heart of the issue is the way banks calculate base rates. While they take into account the average cost of all funds raised by them, the RBI wants them to use the marginal cost of funds, that is, the rate they pay for new deposits or borrowings.

Banks say it's the average cost of funds that matters. For instance, they say that their cost of funds has not come down in spite of the recent repo rate cuts. One reason is that depositors are preferring to park money in fixed deposits than keeping it in savings accounts because of fear that interest rates will fall further from here. Deposit growth, too, has been tepid because of high rates on government small savings schemes and is coming in the way of reduction of deposit rates.

"The marginal cost of funds will have an impact only if deposit rates come down. So, where is the question of transmission of rates?" says B. Sriram, Managing Director, SBI. The biggest source of bank funds today is current and savings accounts on which the interest rate is low. Fixed deposits come next, followed by the RBI's repo window, call money market and commercial papers.

"Deposit growth has slumped to 10-11 per cent, which is reducing our reliance on low-cost funds and putting pressure on margins," says another banker.

Bankers say there is also an asset – liability mismatch. A large part of banks' loans or assets have floating rates whereas deposits or liabilities have a fixed maturity of one or more years. Therefore, replacement of old deposits with lower-cost deposits takes two to three quarters.

Base rates are also influenced by liquidity and credit growth. Sriram of SBI says earlier repo rate reductions had an impact as banks were borrowing heavily from the RBI's repo window and so their cost of funds fell with the repo rate. But today when there is excess or reasonable liquidity, not much borrowing is taking place from the repo window.

*"There is not much borrowing taking place from the market. **The repo borrowing is capped at a certa level.** So there is not much arbitrage also"*
*B. Sriram, MD, SBI*

*"Banks use **marginal cost of funds when there is sufficient liquidity available at that rate to fund a reasonable proportion** of the asset portfolio"*
*Aditya Puri, MD and CEO, HDFC Bank*

Clearly, one of the reasons banks are not borrowing much from the repo window is the slow credit growth of 9.5 per cent. Companies are either not borrowing or are raising money overseas or directly from the domestic market.

Some say risk also plays a part in deciding interest rates. Today, almost two-thirds of the banking sector is grappling with deteriorating asset quality. "They (especially PSU banks) don't want to write more loans by just reducing interest rates. Their risk perception is higher in the current market scenario," says a private sector banker.

A year ago, the RBI's own working group on pricing of credit had talked about the difficulties in shifting to the marginal cost of funds. The 12-member group, headed by former deputy governor Anand Sinha, concluded: "It may not be appropriate to mandate marginal cost at this juncture taking into account the difficulties for majority of banks due to the maturity profile of deposits."

While the RBI and banks are slugging it out, the borrowers are cheering the current rate war in the market. ◆

@anandadhikari

**Benchmark Rates: A Brief History**

**Oct 1960**
For the first time, RBI prescribes a minimum lending rate

**Mar 1968**
Maximum lending rate introduced

**Jan 1970**
Minimum lending rate re-introduced

**Jan 2003**
Benchmark Prime Lending Rate (PLR) introduced

**Jul 2010**
A new base rate introduced, replacing the PLR. Banks not allowed to lend below this

**Sep 2013**
Banks allowed to review their base rate methodology after five years

**Jan 2015**
- While computing the base rate, banks given freedom to calculate cost of funds on the basis of average, marginal or blended cost of funds
- Review period of base rate methodology reduced from five to three years

**Apr 2015**
RBI considering asking banks to link their base rate with marginal cost rather than average cost of funds

# Eye on the Future

## The Rafale deal will boost Indian manufacturing in the long run. By GOUTAM DAS

**NEW DEAL**
**36**
**Rafale jets in fly-away condition**

**ORIGINAL DEAL**
126 Medium Multi Role Combat Aircraft
18 in fly-away condition
108 to be made by HAL

The Indian Air Force's (IAF) quest for a modern fighter jet involved a long-drawn acquisition process lasting more than a decade and logjam in negotiations. However, the end, when it came, was unexpected, and swift.

When Prime Minister Narendra Modi said in Paris on April 10 that India will buy 36 Rafale jets from Dassault Aviation in the "ready-to-fly" mode, many accused the government of sacrificing its 'Make in India' dream at the altar of convenience.

While it's true that the original deal for Medium Multi Role Combat Aircraft (MMRCA), which seemed to be headed nowhere, involved purchase of 18 fighters in a "fly-away condition" and making of the rest by state-run Hindustan Aeronautics (HAL), critics of the latest deal may be overreacting.

"The delay had created ill will. Giving Dassault double the original order of 18 is a good way to break the stalemate," says Amber Dubey, Partner and Head of Aerospace and Defence, KPMG India.

India, say many experts, has a lot to gain from the deal in view of the IAF's depleting strength and promise of domestic manufacturing in the form of offsets, joint ventures and contracts for purchase of components.

When inducted into the IAF in two years, Rafale will be India's most advanced fighter. "The deal addresses the IAF's immediate requirements," says Air Marshal M. Matheswaran, who retired in March last year as Deputy Chief of Integrated Defence Staff. The IAF's fighter strength now stands at 34 against a sanctioned 42 squadrons. "The government will now get time to address 'Make in India' issues," he says.

Though the details are not known yet, either this deal or follow-on deals should have a 'Make in India' component. Analysts say this is a "sweetener" deal with a lot of give and take opportunities in the future. "There could be transfer of technology, more collaboration and use of India as a global supply base for Dassault

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products. Dassault can also set up a joint venture here. That would be real 'Make in India'," says Dubey of KPMG.

Rahul Gangal, Partner, Roland Berger Strategy Consultants, says the deal will create offset opportunities for Indian companies. The offset policy was introduced as part of the Defence Procurement Procedure 2005.

Most defence deals signed by India with foreign companies have an offset clause under which the foreign supplier has to procure a big chunk of inputs – 30 per cent to 50 per cent depending on the deal – from local suppliers. Till date, 24 offset contracts amounting to $4.87 billion have been concluded. Some analysts project an offset opportunity of $3.2 billion for Indian manufacturers if the government goes ahead with a follow-on order for another 36 jets – which is 72 Rafale jets in all. According to some industry watchers, there is a possibility this could happen.

Air Marshal Matheswaran says the cost of each jet was "guesstimated" at $70-80 million when the request-for-proposal was being prepared. Analysts now peg it at $90 million. This implies payment of $3.2 billion for 36 jets and $6.4 billion for 72. The best-case scenario in offsets opportunity is $3.2 billion, where nearly 50 per cent is sourced from Indian vendors. Some of India's big manufacturing houses could be in business. Dassault had already identified its sourcing partners when the previous Rafale negotiations were on.

"It will be a great opportunity for 'Make in India'," says Gangal. "You will get global aerospace and defence supply chains to set up supply bases and capability in India. While this one is a 'fly-away' deal, for Dassault, India is now a primary entity in the portfolio. It will develop the local industrial base in the hope of negotiating the next big deal," he says.

India's quest for a modern fighter has a long history. The request for information for the aircraft came in 2001, tenders for a competitive bid were issued in 2007. In 2012, Rafale edged out Eurofighter Typhoon jets after emerging as the lowest bidder. But the negotiations made little headway after that. It is believed that the cost of making these fighters changed drastically after 2007. Also, India pushed Dassault to take complete ownership of the 108 fighters HAL was to make. Dassault, as was expected, resisted.

Realising that the country could not wait forever for modernising its air force, India directly negotiated with the French government and signed the deal, prompting critics to claim "an unexpected knockout victory" for Dassault as it will not have to transfer technology now. Some called the decision arbitrary and questioned the French jet's performance.

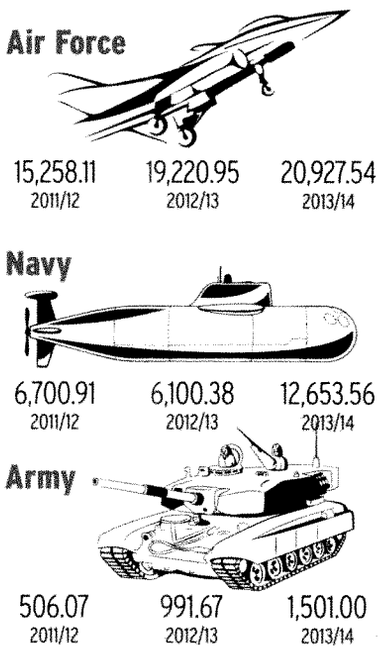
Some even questioned the "handing out of billions to a French company that is struggling to survive." In 2014, the company's sales fell 20 per cent to €3.68 billion while profits fell 18 per cent to €398 million. On April 9, the day before Modi announced the deal, its stock closed at €1,142 on the Euronext. On April 15, it was at €1,224. Investors are perhaps viewing the deal as a lifeline for Dassault.

While India has "given", all eyes are now on the "take" part of the equation. The French have been supplying military hardware to India for quite some time now. Hyder Ali, the Sultan of Mysore (1721-1782), received French equipment to fight the British. Perhaps the French will now look at India differently, beyond its large market. ◆

*@Goutam20*

**MADE OUTSIDE INDIA**

Indian armed forces' spending on foreign vendors has surged




Figures in ₹crore; Source: Parliament

**THE BEST-CASE SCENARIO IN OFFSETS OPPORTUNITY IS $3.2 BILLION, ASSUMING 50 PER CENT IS SOURCED FROM INDIAN VENDORS**

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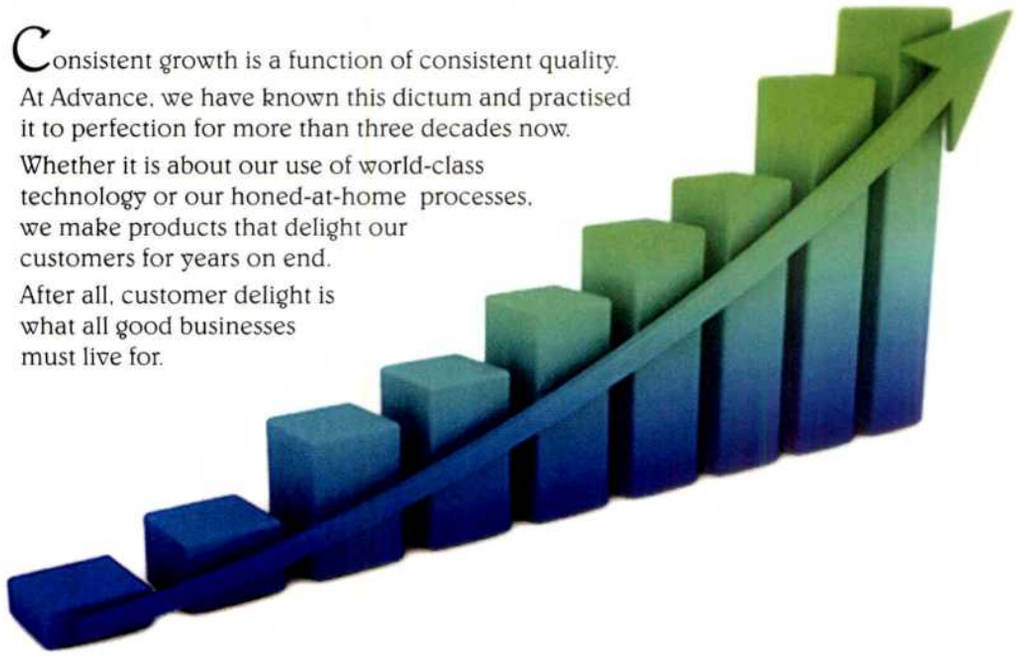

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# Running out of Gas

## The government and Reliance Industries continue to fight over KG D6 gas price at the cost of national interest. By NEVIN JOHN

REUTERS

The Krishna-Godavari (KG) Basin has again become the hotbed of action. The Modi government has acted tough against Reliance Industries (RIL), the lead developer of the KG D6 block, opposing its demand for arbitration for a revision in gas price.

The government has argued that natural gas pricing was its exclusive right as a trustee of the people. Hence, it maintains, RIL has no right to initiate arbitration proceedings over pricing and the Production Sharing Contract (PSC) for KG D6.

The government is adamant that it has the final say in gas pricing. RIL is unwilling to invest further in exploration and production (E&P) at the present price of $4.2 mBtu. The government revised the price to $5.6 per mBtu for other gas producers, but not for RIL. The apex court is yet to complete hearing on the matter. But muting the production at the KG D6 appears to be against national interest and, clearly, the government needs to find a way out of the mess.

RIL has invested some $10.5 billion for E&P in KG D6. The block needs an additional $7 billion to $8 billion for ramping up production but the company is reluctant to make this investment. Only two KG D6 fields, D1 and D3, produce gas but they will exhaust their reserves in three to four years. Already, production from these fields has been falling. At present, D1 and D3 produce 11 to 12 mscmd, compared with the peak of 60 mscmd in 2010. "The offshore fields at KG D6 are capital intensive for E&P activities. The success ratios are lower in this kind of geographies. In such a scenario, no exploration company will blindly invest without any cost recovery roadmap," says an RIL executive.

In addition to D1 and D3, RIL has three more fields at KG D6 – MJ1, Satellite and R-Series. RIL had plans to invest $3.18 billion in R-Series field alone for producing 13 to 15 mscmd of gas for 13 years. But the company has now refused to begin E&P from these reservoirs.

RIL's revenue and EBIT (earnings before interest and taxes) from the E&P vertical was ₹17,250 crore and ₹6,700 crore, respectively in 2010/11. The numbers fell to ₹6,068 crore and ₹1,626 crore in 2013/14 on the back of declining production at KG D6. But, statistically, the company has recovered most of its costs through the sale of gas and 30 per cent stake sale in its upstream assets to BP Plc at $7 billion in 2011. But cost recovery has still not been at the level defined in the PSC.

But why does the government fear the arbitration route since it's the shortest and the quickest way to reach a solution? Industry experts blame political compulsions for it – the government does not want to be seen as internally settling cases with the Ambani group though it is legally binding. "The government should clear its stand first rather than stretching the legal battle. If RIL is acting against the rule, the government has all the right to take back the assets and give it to another developer," sums up a natural resources analyst with an UK-based research agency. ◆

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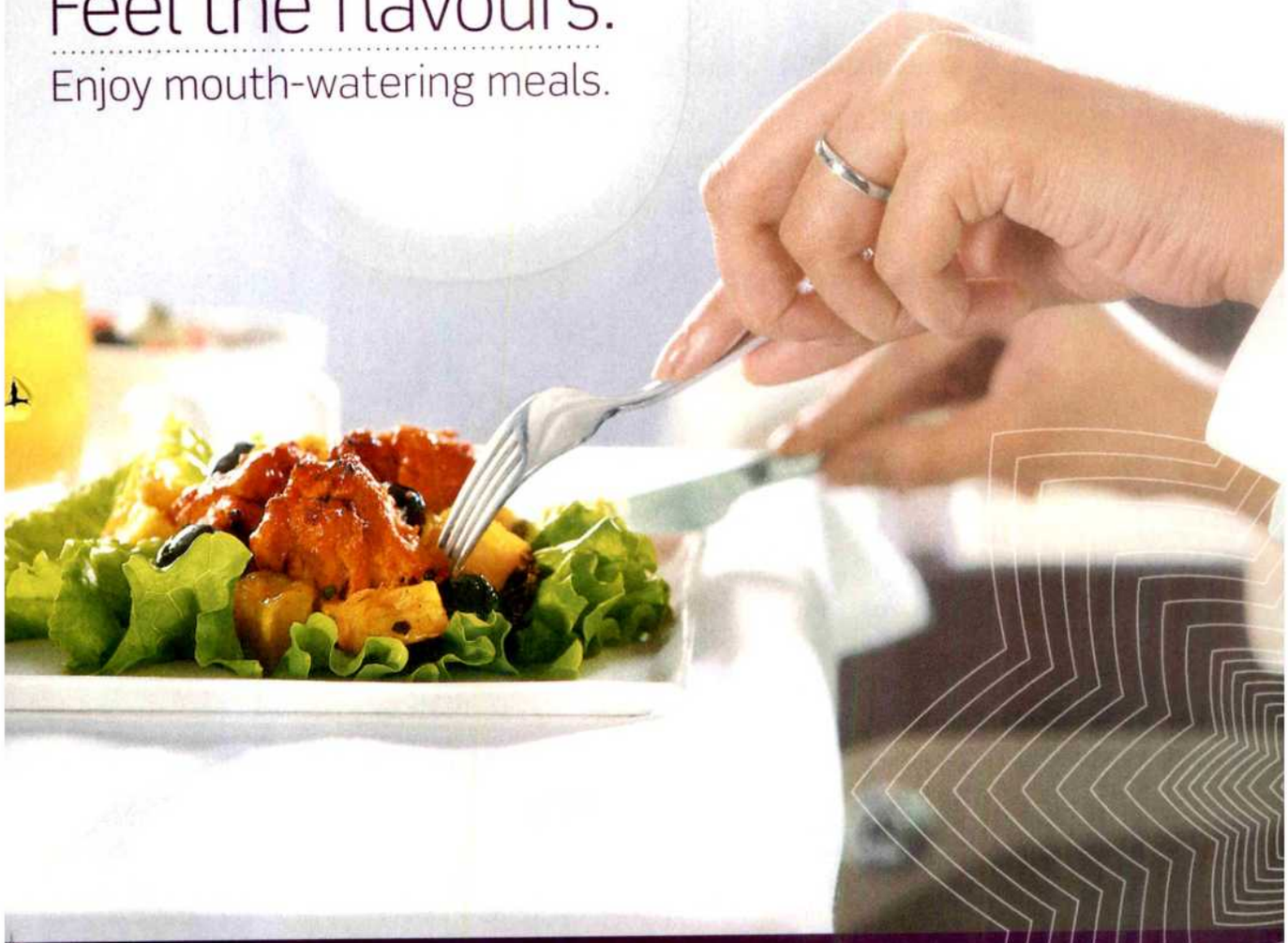

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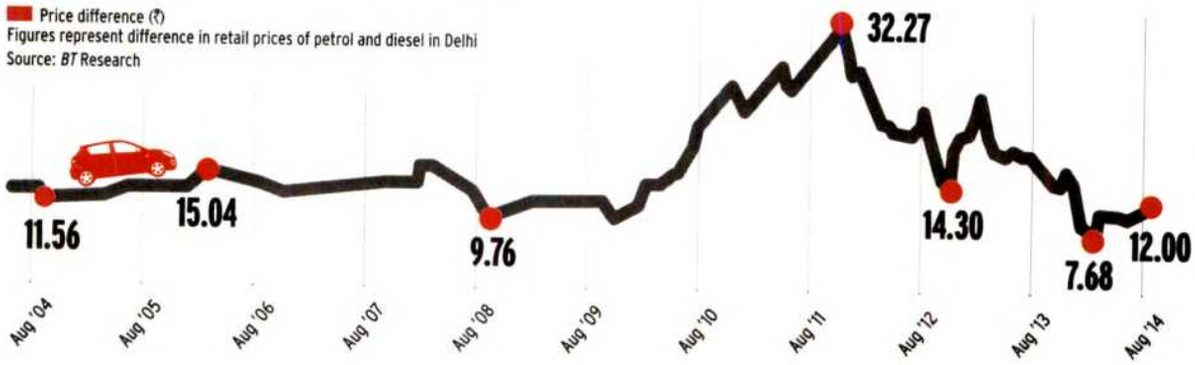
# Dilemma... What Dilemma?

**Carmakers claim their plans, and plants, are flexible enough to handle any changes in fuel pricing policy and diesel car bans. But is it really that simple?** By NEVIN JOHN and ALOKESH BHATTACHARYYA

## HOW PETROL-DIESEL PRICING MOVED




On April 8, the National Green Tribunal (NGT) banned diesel vehicles older than 10 years from plying in Delhi (it then suspended the order for two weeks). What does that mean for the industry? A Tata Motors official says the ban could generate an 'anti-diesel' sentiment in buyers' minds. "Another fear is that NGOs and activists in other cities might follow suit to get older diesel vehicles banned there."

Analysts offer a different perspective. "When older vehicles go off the road, there will be fresh demand for new vehicles," says Rakesh Batra, Partner and National Leader, Automotive Sector, Ernst & Young, but adds that demand for diesel vehicles could be hit. Abdul Majeed, Partner at Price Waterhouse, doesn't expect demand to get affected because the difference between diesel and petrol prices is now only ₹12, and because buyers will continue to prefer diesel for heavier vehicles such as SUVs.

So, will carmakers face a dilemma in terms of planning petrol vs diesel cars? Nobody seems to think so. Maruti Suzuki's spokesperson says it takes a long-term view of products and technologies, and market shifts only entail 'short-term' adjustments for them. Adds Skoda Auto's CMD Sudhir Rao: "We are competent in both fuel technologies and will adjust product strategy as market demand evolves."

Companies claim they didn't face a product mix dilemma even after petrol price deregulation in June 2010 led to a huge difference in the prices of petrol and diesel and consumers shifted large-scale to diesel cars. Carmakers had then invested heavily in diesel production lines. As a result, sales soared. Maruti Suzuki's share of diesel vehicles in its sales rose from 17 per cent in 2010/11 to 37 per cent in 2012/13 (it is 31 per cent now). Honda, which didn't have a diesel car in 2010 and saw its market share reach two per cent in 2011/12, launched several diesel cars since. Today, its market share is over seven per cent. Jnaneswar Sen, its Senior Vice President for Marketing and Sales, says 60 per cent of Honda's sales come from diesel cars.

The pot stirred again in January 2013 when diesel prices were deregulated. Petrol swung back into favour. And with the NGT order, petrol is looking even better. Does that present another dilemma for carmakers? Everyone says no. But as Majeed adds, diesel is 30 per cent of the 2.6-million unit Indian passenger vehicle market. And any pan-India ban on old diesel cars will surely have an impact. ◆

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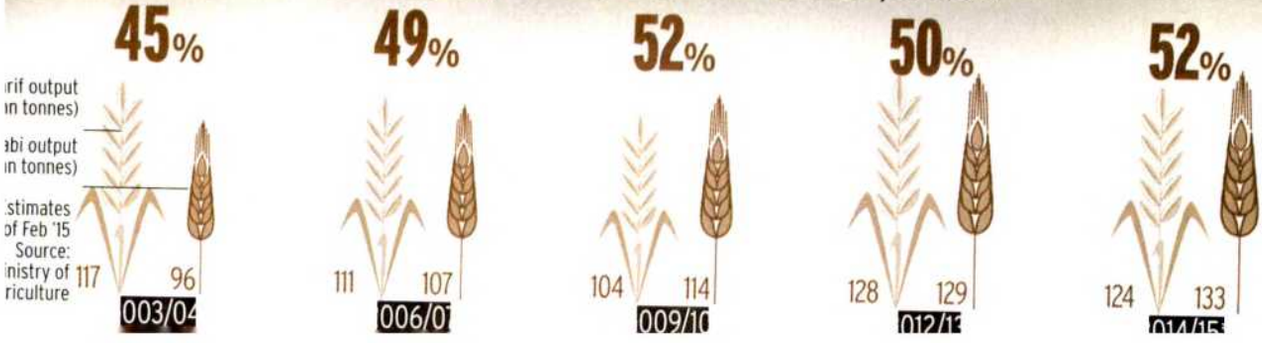
# RAINED OUT

Unseasonal rain in March and April has destroyed rabi crops in various parts of the country. Crops over **106 lakh hectares** - about **18 per cent of the area under rabi crops** - have been damaged. This is expected to push up food prices

Graphic by: **Anand Sinha**
Research by: **Jyotindra Dubey**

**1** The share of rabi crops, sown in winter and harvested in spring, in **India's foodgrain output has been rising.** At present, it is more than 50 per cent



## 2 Northern states, especially **Rajasthan and Uttar Pradesh**, have been dealt a body blow by the unseasonal showers

| | TOTAL AREA IMPACTED | MAJOR CROPS AFFECTED |
|---|---|---|
| Rajasthan | 45.5 | Wheat, Mustard, Pulses |
| Uttar Pradesh | 26.8 | Wheat, Pulses, Mustard |
| Haryana | 18.8 | Wheat, Mustard |
| Madhya Pradesh | 5.7 | Wheat, Pulses |
| Maharashtra | 4.0 | Wheat, Onion, Mango, Grapes |
| Punjab | 2.9 | Wheat, Coriander |
| Himachal Pradesh | 1.5 | Wheat |

Figures in lakh hectares
Source: Ministry of Agriculture (Estimates as on March 27)

## 3 **Wheat crop has been hit the hardest.** Nearly 20 per cent of the sown area has been affected

**62.8** WHEAT

**17.8** MUSTARD

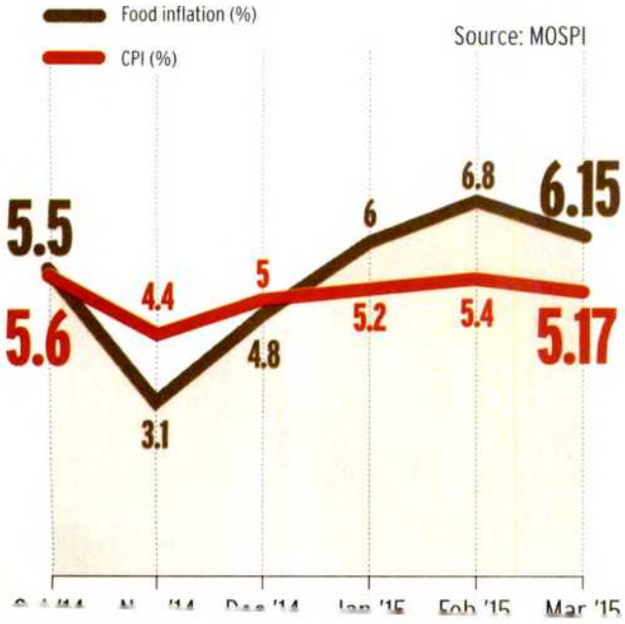
**11.3** PULSES

**2.8** BARLEY

**2.4** CUMIN

Figures in lakh hectares
Source: Ministry of Agriculture (Estimates as on March 27)

## 4 The shortage of foodgrain, fruit and vegetables is pushing up consumer price index (CPI) inflation. A Nomura report says it could touch **6 per cent in the next three months**




## 5 The central government has announced **some steps to provide relief**

**Input Subsidy**
The eligibility for getting input subsidy for crop damage has been lowered from 50 per cent of crop area to 33 per cent

**State Disaster Response Fund**
States have been asked to keep 10 per cent of the fund for local disasters such as heavy rain and use this money to help distressed farmers

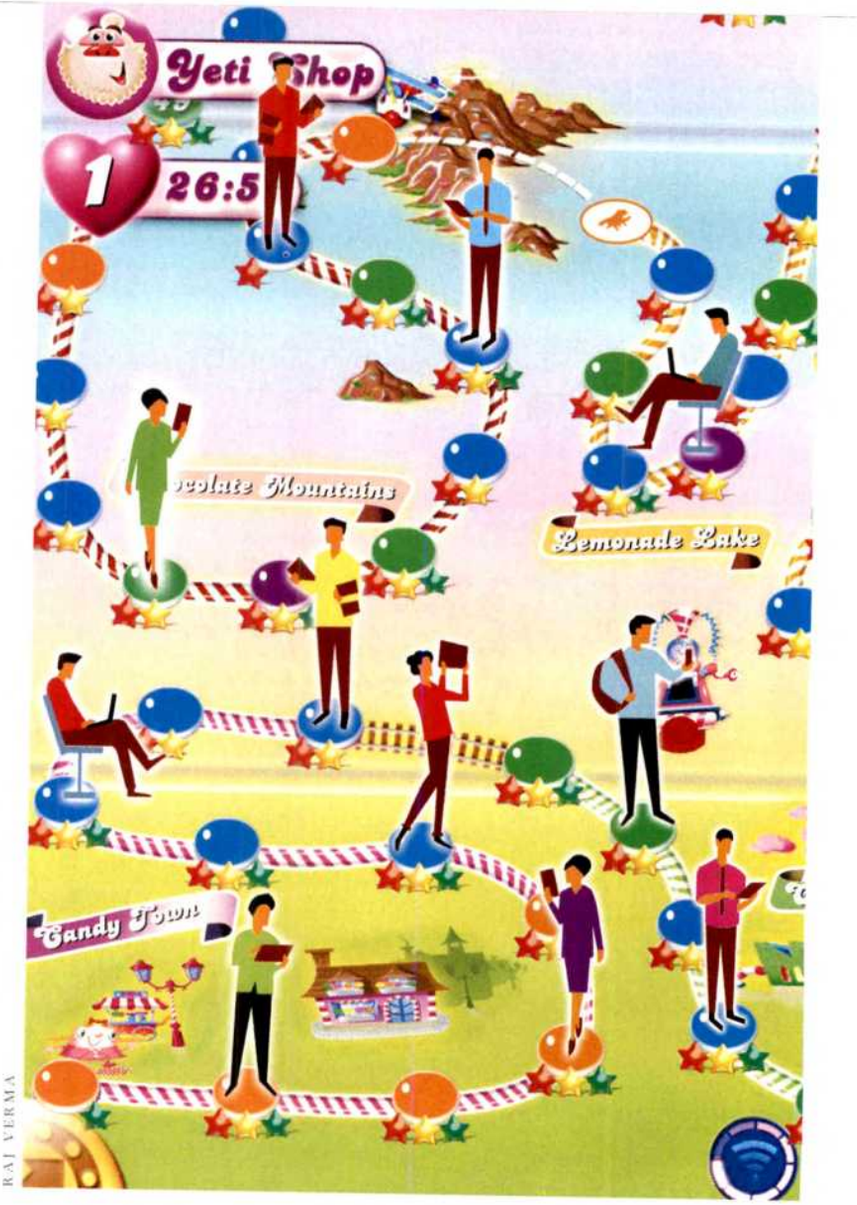
**Loan Restructuring**
Banks have been asked to restructure farm loans, while insurance companies have been asked to settle claims of farmers on a priority basis

WHAT'S TRENDING

# Games People Play

Game sales are rapidly outpacing movie ticket sales, but it's games with a social feature that are scoring heavily online.

By **CHITRA NARAYANAN**




RAJ VERMA

A little chart going viral on Twitter shows the number of years it took a product to attract 50 million users. While the humble radio took a whopping 38 years, TV 13 years and Facebook three-and-a-half years to reach the mark, the game *Angry Birds* crossed the level in just 35 days.

The rather cheeky chart by Citi Digital Strategy Team might be a bit of an apples-to-oranges comparison, but there is no denying the pull of games on the Internet and the way they are taking up a big chunk of people's time. In fact, the world today seems to be divided into two camps – those who play *Candy Crush Saga* and those who don't!

So relentless has been *Candy Crush*'s march – it has 66 million players worldwide – and its London-based developer King's grip on the games market that it has prompted the founder of Zynga (the company that created the Facebook sensation *Farmville* and games like *Poker*) Mark Pincus to come back to lead his company. Once a market leader, Zynga floundered as it did not anticipate the mobile revolution and Pincus ceded way to a professional CEO, Don Mattrick. Pincus' return, however, has surprised analysts, who wonder whether he can really change the game for Zynga.

It takes little to disrupt the games

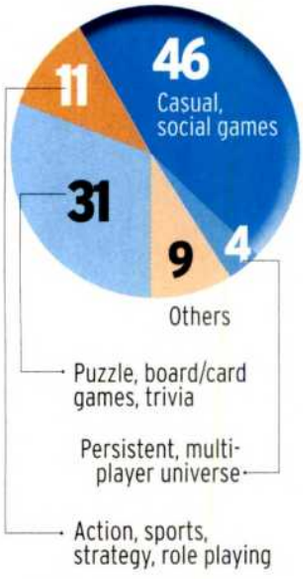
TOP FIVE GAMES ON FACEBOOK

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Candy Crush Saga | Candy Crush Soda Saga | Farm Heroes Saga | Clash of Clans | Hay Day |
| 11.73 | 11.18 | 10.62 | 10.3 | 7.52 |

All figures are daily active users in millions on Facebook for February 2015

industry, but the trends are clear. Games research company Newzoo forecasts that in 2015 mobile game revenues will zoom past those of console games for the first time. As per Newzoo, globally, one billion hours daily are spent on games – five times the amount of time spent on YouTube or Facebook. Newzoo's research shows game sales will rise to $102.9 billion by 2017 from an estimated $91.95 billion in 2015 and $81 billion the year before.

## TYPES OF ONLINE GAMES PLAYED




Figures in %;
Source: Entertainment Software Association, US

"The present and future of games are mobile," says Parikshit Madishetty, founder and MD of Grid Logic Software. The game money development company provides support to casino and social games (it's through their product that users pay money to play the games) in the UK. But as the scene shifts to mobiles, social integration is becoming important. Indeed, mobile games with a social plug-in feature, which means you need to log in through a social network, are ruling the playlist. Social plug-ins, says Madishetty, help the game development company capture the demographics of the players. "It helps us track the user, what kind of user is he, the age group and the gender." The other advantage of social plug-ins is that push notifications and in-game appointment reminders can be sent to users to rejoin the game. The more the players come back, and the longer they play, the more the monetisation.

This is where *Candy Crush Saga* scored. It's viral and offers deep social interactions requiring friends to help each other in order to progress. *Angry Birds* too tried being a social game on Google+ Games platform but it was a half-hearted attempt.

Madishetty says social games earn revenue either through virtual or real currency, which players use to get to the next level of the game when they can't crack a certain level, or through advertising revenue. He says brands that do in-app advertising on gaming platforms have become smarter, as they weave in their ads into the games. "Brands have moved from impressions to engagement. So you might be forced to view those ads to collect those chips needed to get ahead in the game."

Grid Logic has now launched its own game – Taj Rummy – in India. The Indian version of the 13-card game can be played on handheld devices as well as desktops. Madishetty says 90 per cent of the users return to play the game again. Most gamers are between 25 and 35 years and 40 per cent gamers are women, he adds.

At a time when other online ventures are struggling to monetise, gaming companies seem to be scoring better. Already, many have migrated to the next level – putting video experiences into the game! ◆

*@ndcnn*

## LISTENING POST

### Linking up with Lynda

LinkedIn is stepping up the value chain with its $1.5 billion acquisition of skills development company Lynda.com. From simply being a professional networking site connecting jobseekers to job givers, LinkedIn has now become a one-stop place where not only can candidates hunt for jobs but upgrade their skills. As Ryan Roslanksy, Head of Global Content Products at LinkedIn, posted: "Imagine being a jobseeker and being able to instantly know what skills are needed for available jobs .. and then be prompted to take the relevant course to help you acquire this skill." Lynda.com offers its members access to 128,000 training videos on business, software, technology and creative skills. It seems like a win-win partnership.

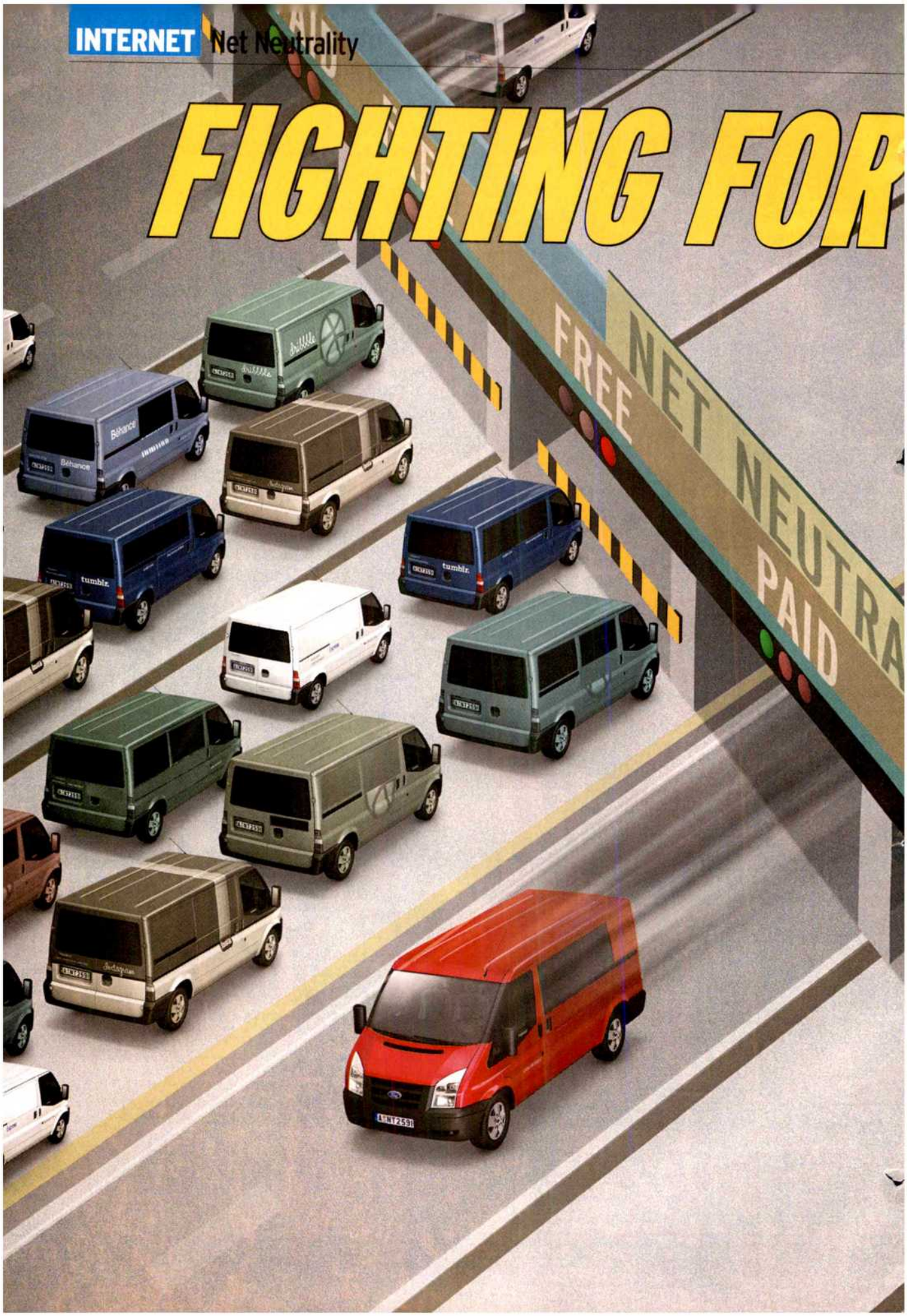
### Reliance gets Chatty

After homegrown messenger app Hike launched by Sunil 'Airtel' Mittal's son Kavin, it's the turn of Mukesh Ambani-owned Reliance Jio Infocom to foray into the space with Jio Chat. Launched on iOS and Android platforms, Jio chat looks quite similar to WhatsApp. Though it does have some additional features such as group video calls and 'send a doodle'. But the acid test is in whether it can attract users away from other chat apps they are comfortable with. Facebook-owned WhatsApp has a formidable 700 million monthly active users. Tencent-owned WeChat has 468 million active users, while Hike has just 35 million so far.

### Saavn Strikes a Sharing Chord

Music streaming app Saavn has added new social and sharing features to its service. Users can now follow their friends' or celebrities' playlists and tune into their activities. They can also tag friends in songs and playlists and those tagged can comment on the music. A lot can happen over music!

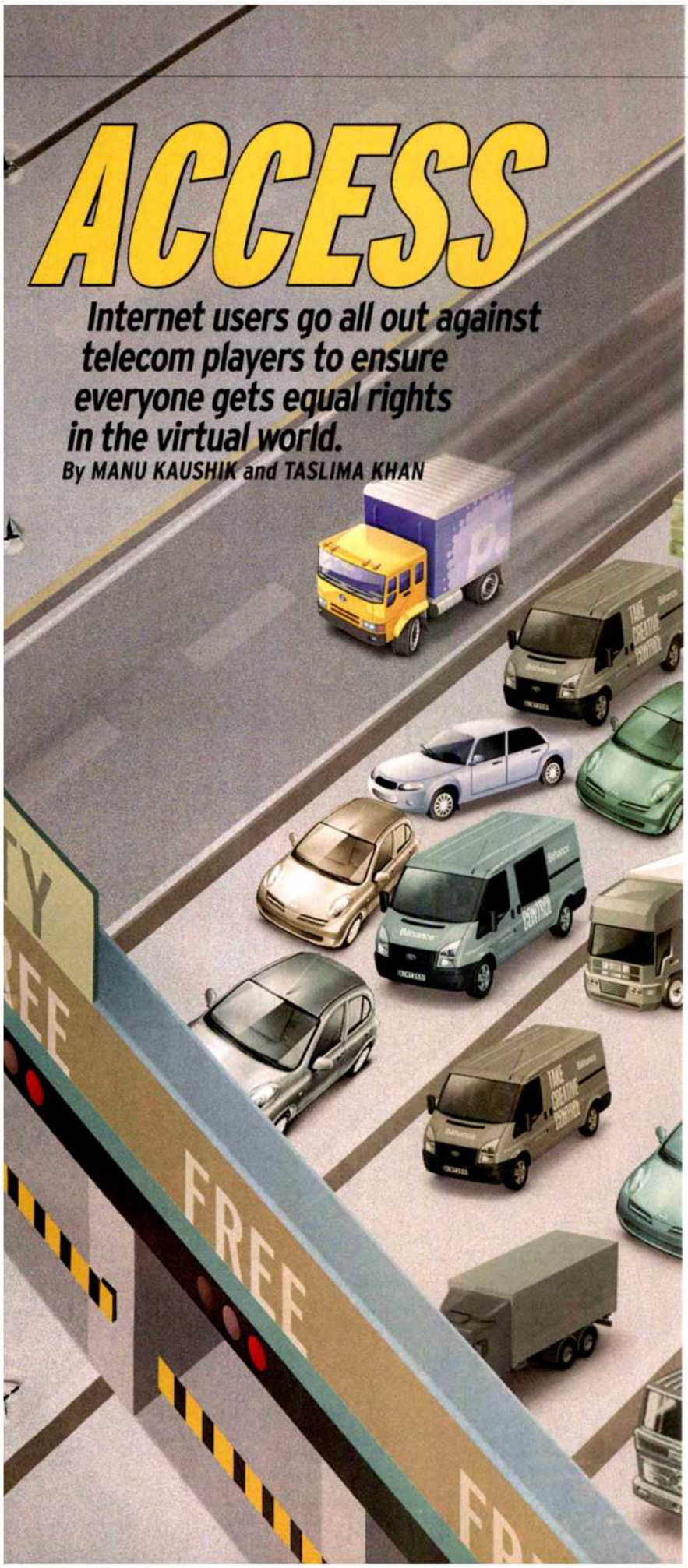
# FIGHTING FOR



# ACCESS

**Internet users go all out against telecom players to ensure everyone gets equal rights in the virtual world.**

**By MANU KAUSHIK and TASLIMA KHAN**




AJAY THAKURI

The gloves are off. The fight between telecom operators and supporters of Net neutrality – the principle of equal access for all content on Internet networks – is out in the open. Worse, it's getting uglier.

The battle, at its heart, is about the pressure on telecom companies from over-the-top, or OTT, players which use telecom networks to offer services such as WhatsApp and Facebook, denting their revenues from voice and SMS. OTT refers to applications and services provided over the Internet.

So, in search of a new revenue stream, some telecom companies offered customers free access to content of entities that agreed to pay them for this special treatment. It is this preferential treatment that is raising the hackles of Internet users.

Though the issue had hit headlines even when services such as Skype were launched and the Voice over Internet Protocol (VoIP) versus voice telephony debate generated a lot of heat, the latest round of this ideological war started in India in December 2014. The trigger was the Cellular Operators Association of India's (COAI's) complaint to the regulator, the Telecom Regulatory Authority of India (TRAI), against OTT players, especially messaging app WhatsApp, in which it accused them of causing a loss to mobile operators. In response, TRAI floated a consultation paper on March 27 seeking views on Net neutrality.

Some seven lakh petitions have already been sent to TRAI. Its recommendations will be examined by the Telecom Commission, the highest policy-making body in the Department of Telecom (DoT), along with suggestions from a Net neutrality committee within DoT, before a policy on the matter is drafted.

Telecom companies, led by mar-

ket leader Bharti Airtel, have been playing defensive so far while the other group, which includes OTT players, Internet activists and start-ups, is vociferous and accusing telecom companies of indulging in unfair and discriminatory practices.

Nearly 10 days after TRAI's consultation paper, Airtel launched its 'Airtel Zero' service that offers free access to mobile apps that sign up for the platform. There was an instant backlash, so much so that the popular e-tailer Flipkart, which was planning to tie up with Airtel, backed off.

"The Internet is fundamentally a democratic platform and we believe that for the best possible health and growth of the Internet there needs to absolute equal access and no discrimination of any kind on data rates for different apps, either for companies or for consumers," says Mukesh Bansal, Head of Commerce, Flipkart.

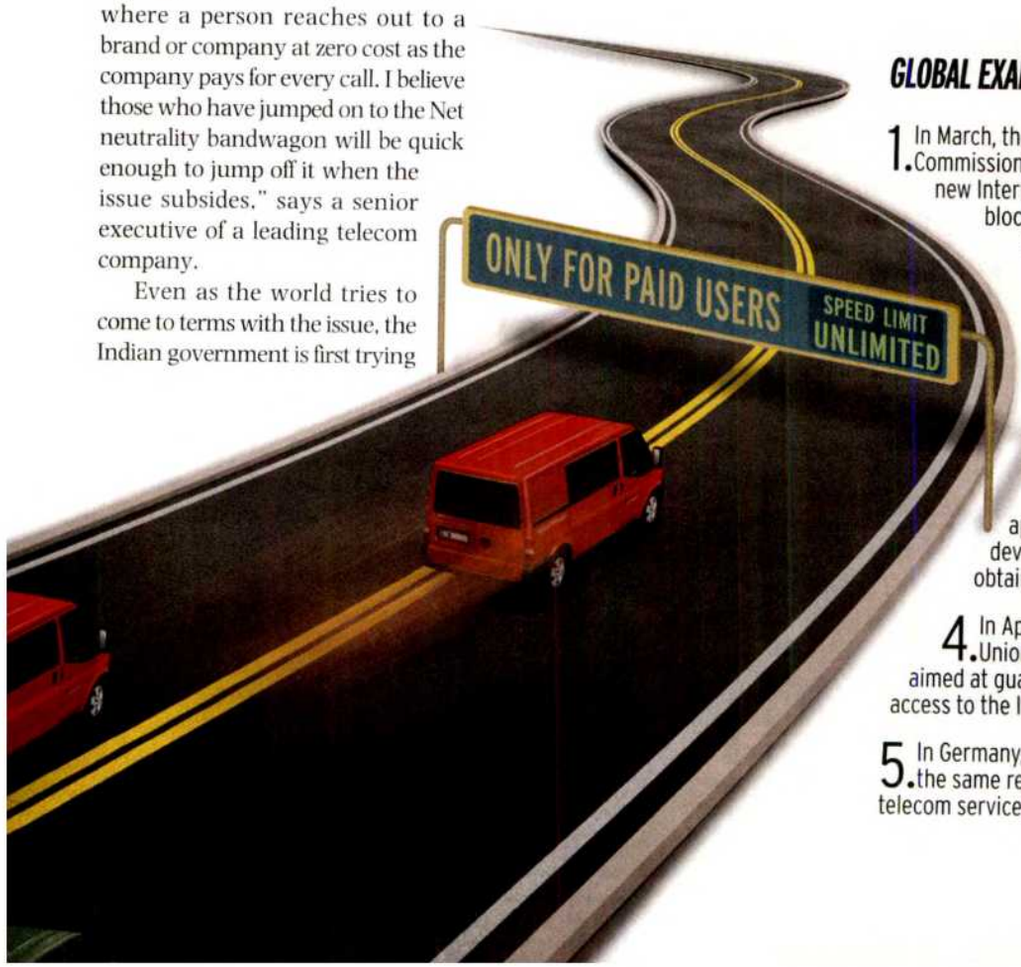
Telecom companies defend their moves. "People have misconstrued zero-rating (toll-free) services. They are like 1-800 toll-free numbers where a person reaches out to a brand or company at zero cost as the company pays for every call. I believe those who have jumped on to the Net neutrality bandwagon will be quick enough to jump off it when the issue subsides," says a senior executive of a leading telecom company.

Even as the world tries to come to terms with the issue, the Indian government is first trying

## POINT COUNTERPOINT

What both sides say on net neutrality

| TELECOM COMPANIES | NET NEUTRALITY SUPPORTERS |
|---|---|
| ● Zero-rating platforms such as Airtel Zero will give people who can't pay access to the Internet | Large application developers or websites with deep pockets will gain and small companies will lose out |
| ● Applications such as WhatsApp, Viber and Skype are eating into revenues and should pay for use of the spectrum | OTT apps have resulted in increased data usage, leading to additional revenue for telcos |
| ● Telecom operators are required to obtain licences and regulatory clearances, which is not mandatory for over-the-top players | All Internet traffic should be treated equally. There should be no discrimination on the basis of sender, recipient or content |
| ● Telcos argue that nearly 10 per cent of mobile users are using 90 per cent bandwidth. They want to do traffic management to preclude a small number of users from clogging the Internet | Telcos will degrade or restrict capacity in traditional Internet access to force applications and content providers to use their "premium" services |




## GLOBAL EXAMPLES

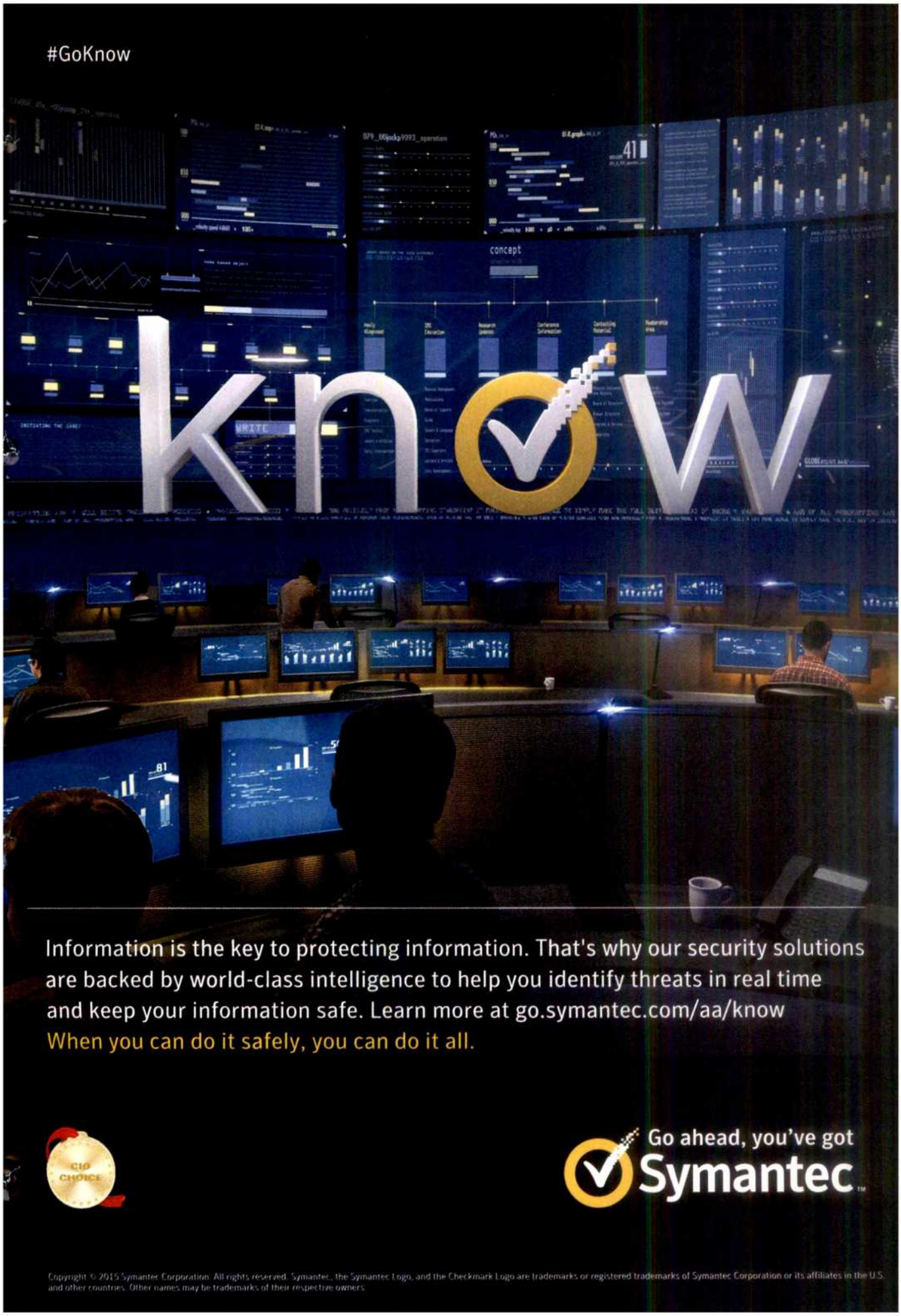
1. In March, the Federal Communications Commission of the US released new Internet rules which bar blocking, throttling or favour to some Internet traffic over others in exchange for consideration of any kind

2. In the UK, there's a price discrimination to ensure development of broadband infrastructure

3. Taiwan is planning to regulate mobile apps. Certain mobile app developers will be required to obtain licences

4. In April last year, the European Union approved new rules aimed at guaranteeing equal access to the Internet

5. In Germany, VoIP services are subject to the same regulatory framework as other telecom services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to define Net neutrality. "Everybody has his own definition. To have a debate, first and foremost, we must define it," says Sanjay Kapoor, Chairman, Micromax Informatics.

## "There needs to be equal access and no discrimination on data rates for different apps"

*MUKESH BANSAL, Head of Commerce, Flipkart*

However, for telecom companies struggling with falling revenues, this is little relief. As per TRAI data, revenues from calls – on both GSM and CDMA networks – have stagnated or fallen over the past several quarters. In case of GSM, monthly call revenue per subscriber shrunk from ₹72.53 in June 2013 to ₹69.35 in September 2014. In SMS, the fall was from ₹3.99 to ₹3.75. However, revenue from data more than doubled, from ₹10.02 to ₹20.48 per subscriber per month, during the period.

Rajan S. Mathews, Director General, COAI, says telecom operators fully support Net neutrality but the present brouhaha has created confusion between Net neutrality and zero-rating services like Airtel Zero. "The cost of production may be ₹30 per newspaper. But because of advertising revenues, newspapers are willing to sell it for ₹2 to ₹3. Take this concept to the Internet. An application such as Google or Facebook may say it will pay operators as many users do not have access but would like to learn and understand. If users benefit, why is it a concern?" he says.

In fact, the US Federal Communications Commission (FCC), which recently ruled in favour of Net neutrality, has exempted zero-rating products from new regulations. On the other hand, regulators in Slovenia and the Netherlands have banned the practice of zero-rating in certain forms.

However, activists say that large application developers or websites with deep pockets will gain from preferential zero-rating services and newer online companies will find it difficult to create a market and compete.

Reliance Communications (RCom), for instance, has tied up with Facebook for its *Internet.org* initiative to provide free access to a small part of the Internet. Till April 15, a total of 38 websites and apps were part of the initiative. Critics say this will make it difficult for rival apps to cater to RCom users. Of course, several websites backed off after a storm in social media. Zero-rating platforms, say critics, will slow innovation.

"Cable TV is the best example. In India, some packages allow access to certain channels at concessional rates. If you look at the programming, it is not very innovative. In the absence of Net neutrality, the same will happen in case of Internet applications," says Arun Mohan Sukumar, Senior Fellow at Centre for Communication Governance at National Law University (NLU). "If Flipkart had signed up for Airtel Zero, many people would have had no incentive to look at Snapdeal or any emerging ecommerce company," he says.

Airtel, however, says that more than 150 start-ups, mostly smaller ones, have shown interest in Airtel Zero. "No site, whether on the toll-free platform or not, under any circumstances is blocked, throttled or provided any form of preferential access," says an Airtel statement.

While the Net neutrality principle says companies should charge consumers only once for Internet access and not discriminate between content providers, the rise in data usage is forcing companies to invest heavily in networks. This is why they feel their hands are being tied up.

"When demand for data rises, we have to invest more. I have to put up more towers, expand customer care and invest in infrastructure," says Mathews of COAI. For this, tariffs have to rise. The other option is to charge OTT players who are benefiting from

**FAST GROWTH** Monthly data usage has been rising steadily

| | Sep '14 | Jun '14 | Mar '14 | Dec '13 |
|---|---|---|---|---|
| Revenues from data per person^* | 20.48 | 18.29 | 16.19 | 14.96 |
| Percentage share in total revenues* | 16.1 | 14 | 12.9 | 12.07 |
| Data usage per subscriber# | 76.97 MB | 70.10 MB | 61.66 MB | 59.62 MB |

#: GSM AND CDMA SERVICES; ^In ₹ *FOR GSM SERVICE SOURCE: TRAI

Internet networks without paying anything in return. In fact, some services, for instance WhatsApp, are trying to shift to the subscription-based revenue model. This is where those who support telecom companies say that if WhatsApp is allowed to charge for voice services which compete with voice services of telecom players, why can't regulations like interconnect charges apply?

"The national telecom policy says provide affordable Internet. Just because someone can pay does not mean operators can continue to increase tariffs. There are a number of people who cannot afford it and so can benefit from the subsidised rates," says Mathews.

Another bone of contention between telecom and OTT players is the imbalance in the current system. Under the telecom licensing regime, voice and messaging services can be offered only after obtaining a licence. While telecom operators are subject to regulatory requirements and fees, OTT players can offer the same services at a fraction of the cost that the former bear.

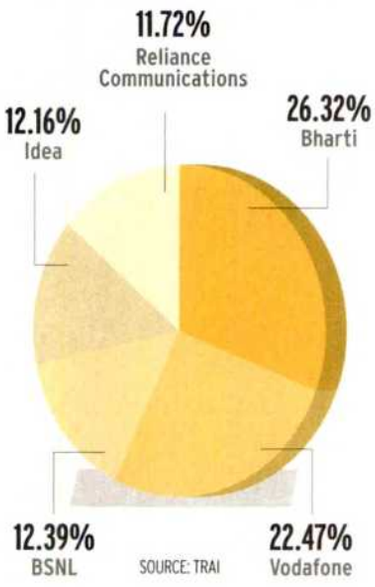
"The crux of the argument is that while on the cost side everything from spectrum prices and equipment is decided by the government, there is no subsidy on it. But when it comes to revenues, regulations are imposed. That is the contradiction," says Hemant M. Joshi, Partner, Deloitte Haskins & Sells LLP.

Several countries have recognised this and asked OTT players to pay for using telecom networks. The French telecom regulator has asked Skype to register as a telecom operator. In Germany, VoIP players such as Viber and Skype follow the same rules as telecom service providers.

Even in the US, whose pro-net neutrality stand is now a global reference point, the issue has not been fully resolved. Telecom major AT&T has sued the Federal Communications Commission over the Net neutrality laws passed earlier this year.

**FAIR DIVISION**

**Market share of Net providers**




In India, there is a third view, one which believes that free competition will take care of the issue. The market here is fairly divided between five companies. So, if one player follows predatory practices, its competitor will capture the market by following the principles of Net neutrality.

***"Everybody has his own definition. To have a debate, first and foremost, we must define it"***

*SANJAY KAPOOR, Chairman, Micromax Informatics*

The debate's basic premise is whether and how much the government allows telecom players or Internet service providers to differentiate on speed, access and price. For instance, a telecom company may prioritise an app for a price, to be paid by either customers or the app owner. The additional revenues will go into funding the network expansion.

Telecom companies say Internet is already tiered in many ways. Take mobile devices. Some smart phones can store 30 apps while others can store just 10. Consumers are also using multiple technologies – 2G, 3G or 4G – based on their needs. "Will Net neutrality rules take care of these disparities?" asks a senior executive working with a telecom company.

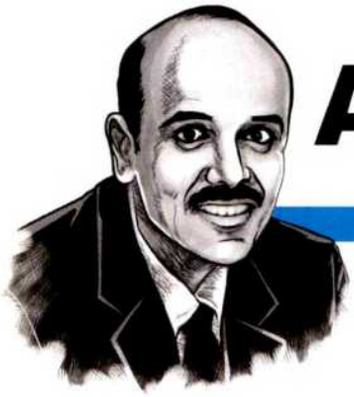
Another argument is that if you allow players such as Apple to decide which apps can be used on their phones and which are kept out, why should you not allow the same to telecom companies?

NLU's Sukumar says the fight is not over as telecom lobbies have been quite powerful since the 80s. "India needs a strong Net neutrality law, coming from Parliament, not just rules and regulations, otherwise it is going to be difficult," he says.

The issue is much larger than what is being presented and will sooner or later embrace other battles, for example the taxi segment, where radio taxis have to be registered while app-based services may manage to bypass most regulations.

However, in telecom, one thing is clear. The DoT will be walking a tightrope while balancing the high expectations of millions of Internet users and interests of telecom companies. ◆

*@manukaushik; @KhanTaslima*



# Are Telcos Hurting

By P. BALAJI

## Regulatory safeguards exist

The mobile industry, one of the biggest success stories in India, has completely transformed the way people communicate, socialise or do business. This industry has, over the last two decades, empowered the Indian consumer to communicate anytime from anywhere at the most affordable rates that are the lowest in the world.

The government has set a worthy vision for Digital India. Over 90 per cent of the web users have their first experience of the Internet through their mobile phones. With the proliferation of smartphones, large investments in network and affordable data rates from operators, the journey of digital inclusion has begun, with nearly 200 million Internet users in the country. However, much more infrastructure and investments are needed to get to a billion users.

The debate on Net neutrality raises several concerns regarding the mobile operators' attempt to control the consumers' access to the Internet. We support Net neutrality and Net equality. We support open Internet and believe that consumers should decide what to do online. Our job is to enable the consumers to benefit from that freedom. We offer choice and do not block or throttle any services. We are committed to safeguarding the principle of the best efforts public Internet, accessible to all. The consumers have always been central to the success of the mobile industry and will continue to be at the heart of all strategy and innovation [developed] by the operators.

There is a discussion on price and or product differentiation. Across industries – from transport to banking – innovation and differentiation has helped provide choices to customers. As long as they are not anti-competitive, they are welcomed globally. In the Indian context, with hyper-competition and ease of switching between operators, consumers benefit from differentiated products. More importantly, there are strong institutional safeguards in place – regulatory authority, consumer courts, the Competition Commission of India, government, media and civil society.

Net neutrality is a complex matter being debated in many countries, and administrations are looking for the right solution to ensure the continued growth of the Internet while managing the unique challenges of a mobile environment, where capacity is finite [due to limited availability of spectrum] and huge investments are required to sustain the growth of Internet traffic.

In India, this challenge is even more acute as mobile operators have a severe capacity constraint due to the severe spectrum scarcity [less than 20 per cent of the spectrum allocated in developed countries], coupled with the highest usage and number of subscribers. Further, huge investments are still required in the rural areas to deliver on the broadband and Digital India vision.

TRAI has just started an exercise where it has tabled all these complex issues and challenges and initiated a public consultation. It has attracted unprecedented interest. It has led to a media frenzy, with netizens expressing concern that the Internet is going to be controlled by the service providers or that they will be charged for every site they visit.

This concern is completely misplaced. The service providers have an equal, if not higher, interest and stake in making sure that the Internet is open and available for all consumers. The TRAI consultation will lead to an emergence of a balanced view that is a win-win for all stakeholders.

The data and broadband revolution will take place by and through consumers. The vision of Digital India is to transform India into a digitally empowered society and knowledge economy with high-speed Internet as a core utility for every citizen. Open access to the Internet is central to this vision. ◆

***P. Balaji** is Director of Regulatory and External Affairs at Vodafone India*

# Consumer Interest?

By RAJEEV CHANDRASEKHAR

## Charging extra for apps foolish

The telecom sector has witnessed a new phenomenon in recent days – a loud and visible consumer movement! In a country where consumer interest has been paid short-shrift all this while, this has caught policymakers and investors off guard. This is a clear sign of what the future holds for the sector. Consumer activism is growing and that has become evident in this debate on Net neutrality. The move to have additional access charges for apps like WhatsApp and Skype was foolish. Telecom companies and regulators have performed poorly in this debate and their actions are only reinforcing the perception of bias against consumers and innovation.

There are many reasons being put forth by the well-funded telecom lobby. The main ones are: First, their viability and investments will be hit by this unfettered run of innovation and apps on the Internet; and second, these apps run free on the bandwidth provided by access providers like telcos and Internet Service Providers (ISPs). The latter is wrong since all access providers are charging consumers for data. And, as is the DNA of the Internet, all IP packets are same, so there really can't be an argument for charging differentially for Internet packets. The reverse is true – the more the apps, the more the carrier's revenues! It's the first argument that needs to be focused on to understand the changes underway in the technology sector.

The telecom sector is fast becoming the Internet sector. The conventional business model is being transformed into an IP-centric data network model. Telcos are being forced to become ISPs where even voice is being carried as data. This is posing a big challenge to them. India's three largest telecom operators are very profitable with strong revenue growth, driven by an increase in data use and growth in smartphone sales and apps. TRAI, in its Net neutrality consultation paper, also says that data usage is increasing and that mobile operators are benefitting from the popularity of over-the-top (OTT) services. This means telecom operators prima-facie have no reason to complain about viability. A PwC paper published this year corroborates this. It says the share of data revenue in telcos' total revenue increased to 12 to 13 per cent in 2014 from five to six per cent in 2013.

No doubt telecom operators have a motivation to manage their networks in a way that maximises their business interests. At the same time, innovation and disruptive technologies are the new normal. What is expected of these telecom operators is to change their models. The move to seek regulatory protection is not going to find a lot of support, least of all among consumers. Instead, the government must look at incentivising investments, but not at the cost of an open, fair Internet.

Tom Wheeler, Chairman of the Federal Communications Commission (FCC), in a compelling opinion piece this year, made the case that it is possible to assure a neutral Internet while encouraging investment in broadband networks. To enable this, the FCC has proposed tax reforms. This is a possible solution to India's concerns as well. Telecom operators contribute five per cent of their revenues each year for the Universal Service Obligation, which is used to fund rural broadband, in addition to around 28 per cent of their revenues by way of licence fees, spectrum charges and service tax. There may be some scope for the government to examine the taxation structure and design a formula that allows them to net higher profits, without compromising on the rights of the end user.

Indian consumers have made their views abundantly clear. The Internet must be accessible, fair and open. The focus shall now shift from the regulator to the government, and I hope it does the right thing! ◆

**Rajeev Chandrasekhar** *is a Member of Parliament and a technology entrepreneur*

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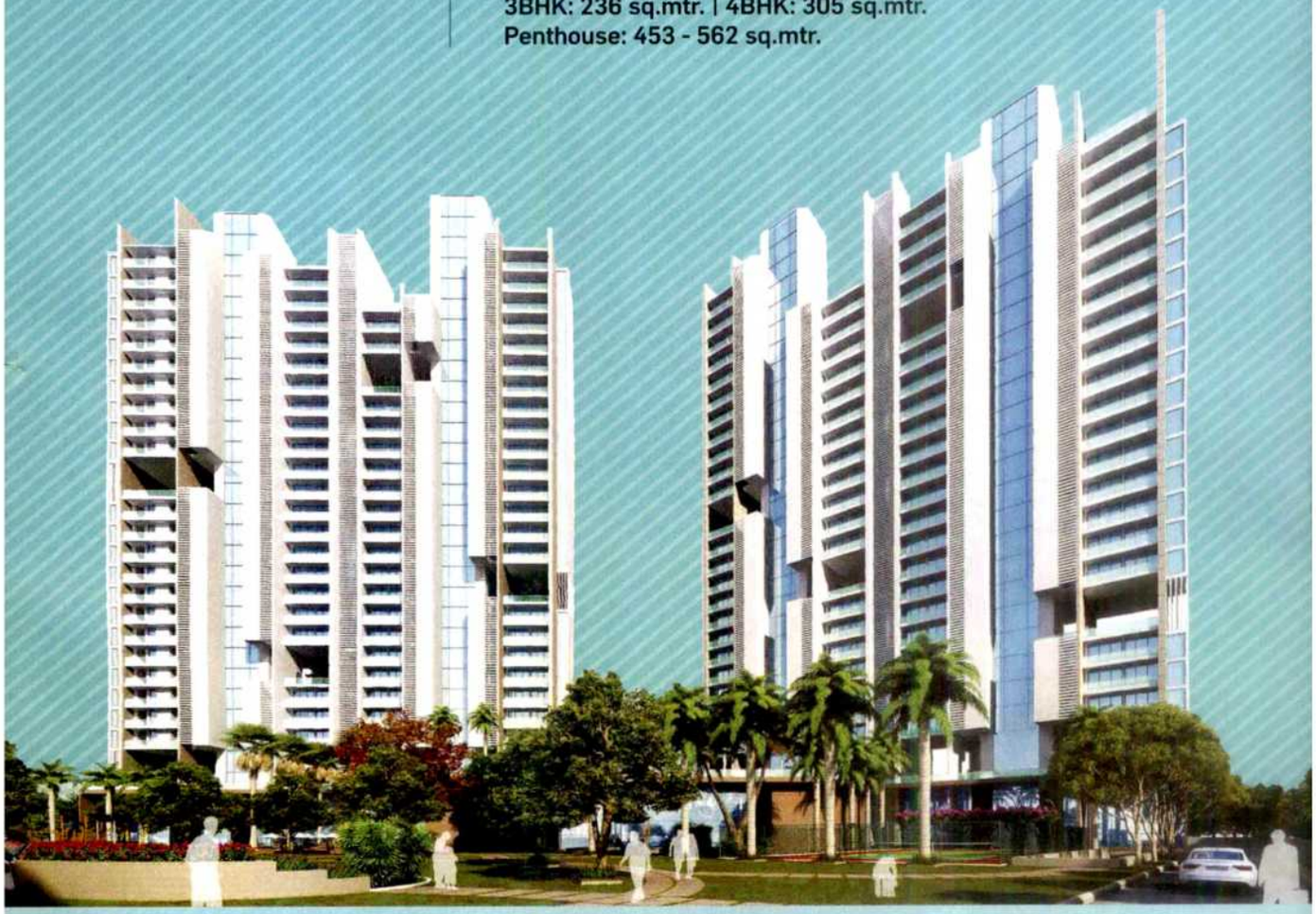

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# THE 100 GW

## The government aims to boost solar power capacity 30 times

### WORK IN PROGRESS

**Main ingredients to achieve the solar power target**

#### LAND + ROOFTOPS

NEED
**1,095 sq km** of land and
**650 sq km** of rooftop space

TARGET
60 GW on solar parks and distributed generation capacity

#### INFRASTRUCTURE

NEED
Investment of roughly **₹45 lakh crore**

CHALLENGE
Solar is infirm power. Even if 100 GW is installed, only 22 GW can be generated on average. But infrastructure is required for maximum capacity

TARGET
Separate green corridor connecting most renewable units

VIVAN MEHRA

**Where the sun shines:** The Dhirubhai Ambani Solar Park in Jaisalmer district, Rajasthan

# HEADACHE

in seven years. Is the target realistic? By ANILESH S. MAHAJAN

## CAPITAL

NEED
Investment of **₹15 lakh crore** is required in seven years

CHALLENGE
Indian banks have total advances of ₹63 lakh crore, so they may not be able to lend

TARGET
The lines of credit stitched this year
EIB, Luxemburg: €200 Million
AFD: €100 Million
JICA: ¥30 Billion
US EXIM: $1 Billion (for US-origin equipment)

## MANUFACTURING

NEED
**15 GW a year**

CHALLENGE
Domestic production is 2.5 GW a year

TARGET
To increase domestic manufacturing by 12 GW a year

## DISTRIBUTION

NEED
Distribution companies to honour their PPAs

CHALLENGE
21 out of 29 state distribution companies are saddled with debt

TARGET
Must honour their PPAs

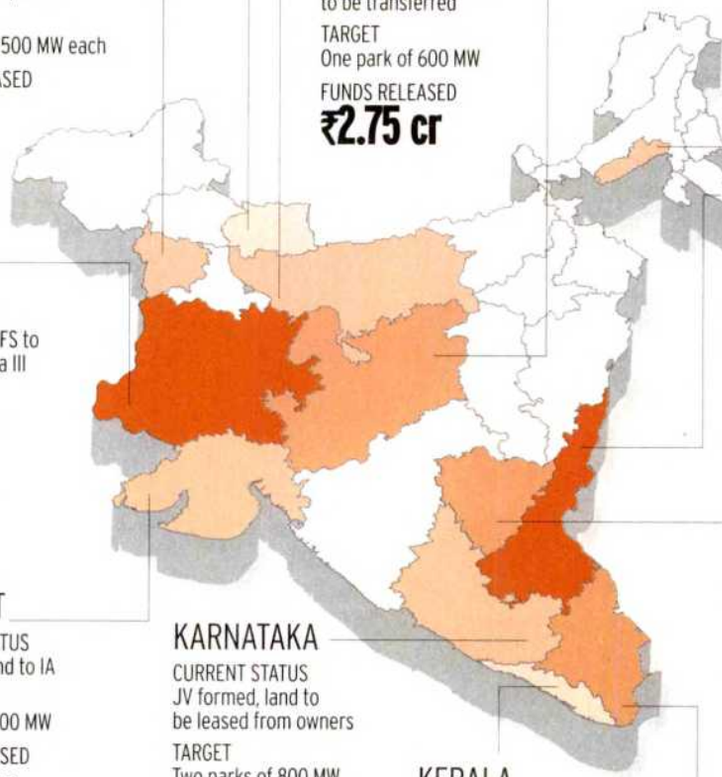
Just two years ago, few outside Gujarat's Patan district had heard of the tiny village of Charanka. It is home to the tribal Ahir community at the eastern end of the great Kuchchh desert. Acres of wasteland owned by the community grows little except the occasional wild bushes.

But in 2013, it found itself under the spotlight when the then chief minister Narendra Modi inaugurated the one-of-its-kind solar park there. Twenty-three small and big players came together to set up the 345 megawatt (MW) solar park (being expanded by another 300 MW). That made it capture 10 per cent of India's installed solar capacity.

As you head towards the solitary 80-feet tower overlooking the 5,384-acre sprawl of different shades of blue (representing monocrystalline, polycrystalline and thin film panels), a Gujarati-flavoured English voice informs you the tower was not

## OFF THE BLOCK

**The government has so far approved 17 solar parks with total capacity of 12,759 MW**



### PUNJAB
CURRENT STATUS
Land to be acquired
TARGET
Two parks of 500 MW each
FUNDS RELEASED
**₹3 cr**

### UTTARAKHAND
CURRENT STATUS
Implementing agency to be finalised

### UTTAR PRADESH
CURRENT STATUS
JV to be formed, land to be transferred
TARGET
One park of 600 MW
FUNDS RELEASED
**₹2.75 cr**

### MADHYA PRADESH
CURRENT STATUS
Hand over land to implementing agency
TARGET
Two park of 800 MW
FUNDS RELEASED
**₹3 cr**

### MEGHALAYA
CURRENT STATUS
Land to be transferred to implementing agency
TARGET
One park of 20 MW

### RAJASTHAN
CURRENT STATUS
JV between state government and IL&FS to be formed for Bhadla III
TARGET
Three parks of total 2,700 MW
FUNDS RELEASED
**₹33.44 cr**

### ANDHRA PRADESH
CURRENT STATUS
Kurnool: Land being acquired, tender for 1,000 MW to be issued,
Anantpur land to be transferred
TARGET
Two parks of 1,500 MW and 1,000 MW
FUNDS RELEASED
**₹123.085 cr**

### GUJARAT
CURRENT STATUS
Hand over land to IA
TARGET
One park of 700 MW
FUNDS RELEASED
**₹2.75 cr**

### KARNATAKA
CURRENT STATUS
JV formed, land to be leased from owners
TARGET
Two parks of 800 MW

### TELANGANA
CURRENT STATUS
Implementing agency to be created
TARGET
One park of 1,000 MW
FUNDS RELEASED
**₹2.75 cr**

### KERALA
CURRENT STATUS
State to hand over land to implementing agency

### TAMIL NADU
CURRENT STATUS
Implementing agency to be finalised
TARGET
One park of 500 MW

Source: Ministry of New and Renewable Energy

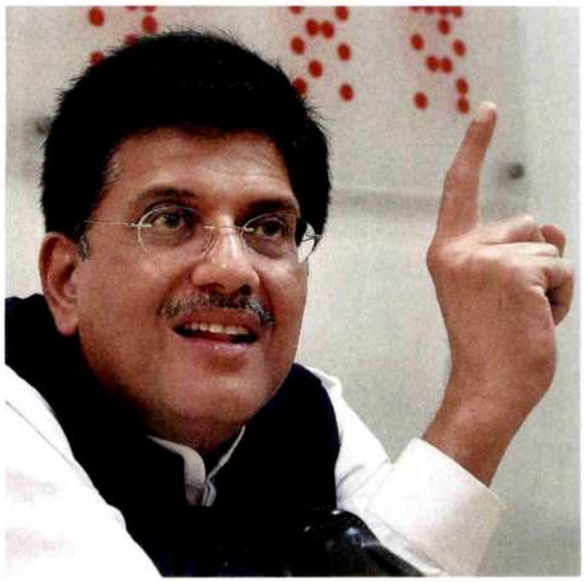
part of the original plan. "It was erected to facilitate Modi's photo-opportunities and showcase this solar park to the world," says Hitesh Shah, a young engineer with Gujarat Solar Park who is entrusted with the job of taking the visitors around. A tiny lift that can accommodate five people takes you right up to the top. You could be forgiven for mistaking the land beneath for an ocean of blue. The illusion is only broken by a twister. "They are regular here. The dust they deposit increases the cost of cleaning the panels," explains Shah.

As fate would have it, Modi went on to become one of India's most powerful prime ministers with the backing of 340 members of Parliament in the 543-member lower house. And Charanka-like solar parks are now key to the '24x7 power to every household' dream that Modi sold to the masses during the elections. So Modi and his trusted lieutenant Piyush Goyal have targeted setting up an ambitious 100,000 MW (or 100 GW) of solar power capacity by 2022. That's equivalent to 300 Charanka-like parks or 30 times of India's existing solar power capacity (interestingly, despite the hype around the target, the website of the Ministry of New and Renewable Energy (MNRE) still claims India plans 22,000 MW of grid-connected solar power by 2022!) But critics say they would be surprised if even 30 per cent of the 100 GW target is achieved. Here's why they think it is such a herculean task.

One, no country in the world has set up 100 GW of solar capacity. Not even Germany – the biggest proponent of solar energy – whose capacity is 38 GW. Nowhere in the world has a country added 15 GW of solar capacity every year. "It is not an easy task by any means, but we are determined to make it happen," says Goyal.

That doesn't mean that a focused approach can't get India to the target. But consider what the Modi-Goyal duo is up against. It requires an investment of ₹6.5 lakh crore (nearly three times India's defence budget) at a time when the Indian banking system is already laden with bad and doubtful debts of more than ₹10 lakh crore. It requires 1,095 sq km of land (equivalent to 3,60,000 football grounds) when the country is embroiled in a raging debate over land acquisition rights. It requires 400 million units of solar modules when the country's solar module makers can manufacture only 70 million units in seven years. Though it's clean energy, it will still pose questions of viability as solar energy costs ₹6 to ₹7 per unit against the average cost of power of ₹4 per unit today. And, importantly, the new capacity will face the distribution and evacuation challenges that are the bane of India's power sector. "The evacuation and grid management is a big challenge, and if we look at expanding renewable resources the challenge becomes more steep," says Amit Kumar, Partner, Energy and Utilities, PwC India.

Indeed, at the end of the day, even if the target is achieved, it will only produce roughly 22,000 MW of power (solar panels work at 22 per cent efficiency) – that too in day time. That spike and ebb (at night) is another challenge India's grids may have to deal with whenever the capacity is up and running. Banmali Agarwala, CEO, GE South Asia, says the blend of renewable energy up to 20 per cent is manageable but beyond that this could destabilise the grid.



"It is not an easy task by any means, but we are determined to make it happen"

Piyush Goyal, MoS, Power, Coal and Renewable Energy

## Lofty Ambition

It will be nothing short of a miracle if the Modi-Goyal combine achieves the target. As against India's ambition to set up 100 GW, the total solar power generation capacity in the world stands at 177 GW. While the global capacity has been set up over 15 years, India has set out to achieve its target in a short span of seven years. To stitch together India's solar story, Modi entrusted his additional principal secretary, P.K. Mishra, to help Goyal. Mishra is a confidant of Modi. He was chairman of Gujarat State

Regulatory Commission for five years. His job is to take the bureaucracy along, and support 'out of the box' thinking in Goyal's ministry.

At a renewable energy conference in New Delhi in February, 200-odd Indian and foreign companies signed on letters of commitment to set up 266 GW of wind, solar and other renewable energy projects against India's current installed capacity of 230 GW. At least 166 GW of that was solar power commitment.

But there is a big question mark over whether the intent to humour India's prime minister and the power minister outweighed the intent to put such capacities on the ground. After all, SunEdison, which operates solar plants totaling 100 MW, committed 10,000 MW of solar and 5,200 MW of wind power plants. Axis Wind Energy, whose website is under construction, has committed 12,500 MW – the second-highest – of renewable energy. Interestingly, most announcements are in the form of MoUs and not concrete agreements.

Yet, such scale has never been achieved. As against India's annual target of 15,000 MW, the maximum annual capacity has been added by China at 12,000 MW in 2012. But nowhere near that since. In 2014, the US added the maximum 6,200 MW, its best ever. For the record, India has historically added around 1,000 MW per annum.

Of the 100 GW, India plans to set up 40 GW through Charanka-like parks and other distributed generation units; another 40 GW through rooftop solar and the remaining through the Pradhan Mantri Surya Udhyami Yojana, or the Prime Minister Solar Entrepreneur Scheme.

"The financial health of many discoms is poor, causing delays in payment for the power they procure"

ANIL SARDANA, CEO, Tata Power

While the rooftop solar policy is still in the works, the government is yet to announce any details of the solar entrepreneur scheme. "By 2017, the target is to reach 11 GW (11,000 MW). Then we are expecting grid parity (where the cost of solar power generation is equal to or lower than the cost of other sources of power generation). And this can accelerate the addition manifold," says a top official in the government. "By then, even if the government doesn't do anything and just sorts policy enablers, solar-based units will multiply," says Ratul Puri, CEO, Hindustan Power.

"These calculations are based on the improvement in technology and cell manufacturing cost reduction. But this (tariff reduction) can be done much faster, if the government intervenes by reducing interest rates, allowing dollar-denominated bonds, reduction in capital cost or introduction of other financial instruments," says Anurag Garg, Vice President of the solar business at Schneider Electric India. As solar cell technology has improved in terms of efficiency and economies of scale, solar power generation cost has fallen from ₹15 per kWh to ₹6-7 per kWh. Further improvement could bring it on a par with thermal power, which currently costs ₹4 per kWh.

## Funding Blues

At a capital cost of ₹6.5 crore per MW, the cost of setting up 100,000 MW of solar plants works out to ₹6.50 lakh crore. Even at a debt-to-equity ratio of 1:3, this will require debt to the tune of ₹4.5 to ₹5 lakh crore. Promoters will have to bring in funding of ₹1.5 lakh crore. Another ₹7-8 lakh crore is required for grid infrastructure and equipment manufacturing.

By all accounts, it's a big task. The government has yet to come up with a proposal for debt funding beyond the banking system. And the banking system has already hit the sectoral ceiling of 16 per cent for the power sector. Of the ₹63 lakh crore of bank advances, more than ₹9.5 lakh crore has been to the power sector.

Promoter equity will also not be easy to come by since corporate India's total debt of ₹41 lakh crore limits promoters' elbow room. Foreign equity or debt investment is difficult because largely solar power

generation continues to be a subsidised business. Goyal, however, informed Parliament that subsidies for rooftops have been reduced from 30 per cent to 15 per cent with the intention to eliminate them soon. "Risk capital is expensive. The nature of solar projects is such that once you mitigate the construction cost and get connected to the grid, you just have to do the right generation. This will create cash flow. This becomes an ideal situation for pension funds to come in and earn yields on annuity basis," says Puri of Hindustan Power. Besides, solar parks, even grid upgradation needs enormous funding. The Indian grid has an installed capacity of 260 GW. By 2022, it will be roughly 500 GW, needing an investment of ₹43,000 crore by Power Grid Corporation. "Negotiations are going on with the Asian Development Bank (ADB), World Bank and state governments to stitch a soft loan," says a top official in the power ministry.

"The best way is dollar-denominated bonds, or government-backed green bonds," suggests Vineet Mittal, Vice President, Welspun Renewables. Goyal and Finance Minister Arun Jaitley are in talks to allow access to affordable international funds. Foreign funds are demanding stability in currency. One way is hedge fund pool, says a top official in the finance ministry. Pools ensure that the government will compensate for any depreciation in the currency. There is a market to hedge medium-term foreign exchange risk, but it is 'expensive' as foreign funds see the life of a solar plant at roughly 25 years and are pushing to mitigate risks, says the official. The biggest drawback is that international funds prefer equipment sourced from established international players. And that's not in sync with Modi's 'Make in India' promise as solar is one of the 28 items listed for local manufacturing under the initiative.

## Land Blues

Charanka-like farms with roughly 20 GW capacity will require at least 324 sq km of additional land. The Wasteland Atlas of India says that India has 4,70,770 sq km of wasteland, and that the planners have considered just three per cent of this for roughly 400 GW in the country. But that is in theory. "Availability of land at a suitable price is an issue. The land acquisition bill has already increased the compensation amount to four times. This will limit the area that can be brought under the solar energy," says the CEO of a power company. "Tamil Nadu has the best solar policy, but it is unable to attract investments. It is only because land is not available at a suitable price," he added.

Countering this is Mittal of Welspun, who also heads the Solar Power Developers' Association. "The

## DESERT SAFARI

### Rajasthan has taken the lead in luring solar power developers

**Rajasthan CM Vasundhara Raje Scindia is right. She looks at India's biggest desert as an asset and is keen to make it the electricity hub of the country. "Rajasthan is blessed by nature with maximum solar potential in the country, an estimated 142 GW solar capacity and abundant barren land for installation of solar power plants," she says. Rajasthan has 84,929 sq km of wasteland, the largest in the country. In October 2014, Scindia's government revised the state's Solar Energy Policy, which many say is one of the best. This desert state has 868 MW of installed capacity. Projects totalling 823 MW capacity are in the pipeline but it has already signed MoUs for solar power generation commitments of more than 32,000 MW from companies such as Adani Enterprises, Reliance Power, Essel Infra, US-based SunEdison and Delhi-based Azure Power. Raje has also secured permission from the MNRE to set up three solar parks in Bhadla and Jaisalmer areas of the state. Collectively, these power plants will add 2,700 MW. The BJP government amended the state tenancy law and Rajasthan land revenue law to allow operators to even acquire agriculture land (buy or contract) for solar parks. Except Tamil Nadu, no other state has had the political will to bring in such a provision which saves several months of legwork to get the land use changed. But what worries the developers is the fiscal health of the loss-making state distribution company, which has total debt of a whopping ₹77,453 crore.**

Vasundhara Raje, Chief Minister, Rajasthan

## THE MULTIPLIER

### How an IIT graduate became one of the biggest solar EPC players

**Many of Rahul Gupta's batchmates at IIT Roorkee called him a rookie, but he was worried about his placement as he feared his academic record might land him in a soup. So he started visiting the college library regularly. Once, while reading the newspaper, he read an article about a solar plant in Amritsar. Hailing from Rajasthan – the hotbed for solar energy – the idea stuck with him. While in college, he and one of his classmates founded a small EPC venture company, Rays Power Projects, and completed some projects. Gupta soon parted with his friend, relocated to Delhi and started another company Rays Expert. Today, Rays is one of the biggest players in solar EPC and dominates Rajasthan. "I still remember, in 2009 when we stared the venture, I did not have ₹1.37 lakh to apply for tenders," says Gupta. He is in talks with risk capital firms to raise ₹400 crore by offering 25 per cent of equity. He reported revenues of ₹230 crore with profit after tax of ₹10.7 crore. He is busy these days commissioning his own 100 MW solar plant in Bikaner.**

Rahul Gupta, founder, Rays Expert

beauty of solar is you can go as remote as possible. As a matter of policy, I ask my people to look for land which is not suitable for agriculture," says Mittal. His idea will, of course, require the grid to evacuate power from such remote areas. His company developed a park at Neemuch in Madhya Pradesh with installed capacity of 130 MW, the biggest solar farm by a single operator.

So, for now Modi and Goyal are focusing on states run by the BJP or allies to harness the potential of solar energy. Between July and December last year, Goyal's ministry approved 16 solar parks. The plan is to develop 25 such parks in the next 24 months.

### The Saffron State Push

During his campaign for the 2014 Lok Sabha elections, Modi inaugurated Welspun's Neemuch solar plant, and called it saffron revolution – taking a leaf from the green revolution four decades ago. As the PM, he now hopes to take all saffron states along. Since May, states have, for the first time, issued tenders to set up 6,000 MW of new solar plants.

Efforts are on to facilitate investment and evacuation of power. These include faster transfer of land, allowing the solar farm developers to use agriculture land, assuring them evacuation of power and single-window clearances. Power Grid Corporation, India's premier grid infrastructure company, is being asked to build transmission lines connecting all upcoming solar parks and wind energy plants. "We seek clarification from the Central Electricity Regulatory Commission (CERC) to allow laying transmission lines suomoto," says I.S. Jha, Director (Projects), Power Grid. As per existing regulations, solar plants have to apply for grid connectivity, experts say. This delays projects.

Other than this, these states are aggressively pushing environment and other clearances. Madhya Pradesh's state agencies are working to start 2,000 MW of solar farms at Rewa, Neemuch and Agar on about 28 hectares of wasteland. "We are committed to providing round-the-clock good quality electricity to every citizen in the state. Solar and wind energy play a critical role in providing access to those living in remote areas of the state," Chief Minister Shivraj Singh Chouhan had told *BT* in an earlier interview.

"We understand this issue. Most

## BIG PROMISES

### Companies that have planned to set up massive solar power generation capacities

| Essel Infraprojects Limited | Sun Edison Energy India Pvt Ltd | Azure Power | Raasi Solar Energy Pvt Ltd | Hindustan Clean Energy Ltd |
|---|---|---|---|---|
| 12,000 | 10,000 | 11,000 | 10,600 | 7,000 |

Figures in MW; Source: MNRE

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of our projects are in plug-and-play mode. Agencies from the Centre or states or their joint ventures, are developing them, and later we can get equity partners from the private sector," says Upendra Tripathy, Secretary, MNRE.

In Rajasthan, also run by the BJP, Chief Minister Vasundhara Raje Scindia is busy attracting investments. Rajasthan has installed capacity of 868 MW while projects of 829 MW are under implementation. Rajasthan receives maximum solar intensity in the country and has low precipitation, while there are long stretches of land available to set up plants. The state is now looking at bigger projects of 100 MW and above.

**₹6.8/ kWh**
is the minimum tariff from solar generation. The government is working to reduce it by ₹1 per unit in next one year

In October last year, Rajasthan revised its Solar Energy Policy, 2014. It allowed projects to use agriculture land without land use change. This resulted in proposals and joint ventures of 32,000 MW from corporate houses such as Adani Enterprises, Reliance Power, IL&FS, Essel Infra, Azure Power and US-based SunEdison. Rajasthan Solar Park Development, a state government subsidiary, is developing two solar parks of 1,400 MW at Bhadla and 1,000 MW in Jaisalmer.

"We have tried to interweave these (initiatives) to create a progressive, farmer- and industry-friendly policy. The state is fast emerging as one of the largest solar hubs of the country," Scindia told *BT*.

In fact, Chandrababu Naidu, the BJP's ally in the National Democratic Alliance, was the quickest among the chief ministers to get an in-principle nod for two solar parks in Kadapa (1,500 MW) and Kurnool (1,000 MW) districts of Andhra Pradesh on November 28, last year. Kadapa would be the country's largest solar park. The total installed capacity in Andhra Pradesh is 250 MW; the target is to take it to 5,000 MW in the next few years.

## Equipment Conundrum

At 2.5 GW per annum, India's solar module manufacturing capacity is woefully inadequate to meet the annual demand for 15 GW. At the same time, India has mandated use of locally manufactured solar cells for 3,000 MW installations (where developers have sought subsidies). The US

Ratul Puri, CEO, Hindustan Power

VIVAN MEHRA

## MAKING HAY WHILE THE SUN SHINES

### Ratul Puri's calculated risks have paid off

**Ask any of the friends of Ratul Puri and they say that, unlike his contemporaries, Puri has the knack for taking calculated risks. Many of them expected him to fail when he rechristened Moser Baer Projects to Hindustan Power Projects, in January 2014. Puri, in fact, was trying to distance the brand from the Moser Baer group his father founded but which was in trouble due to massive debt pile-up and had applied for corporate debt restructuring. He made the business, where his peers were bleeding, India's biggest solar energy operator with installed capacity of roughly 300 MW, spread across West Bengal, Tamil Nadu, Rajasthan, Madhya Pradesh and Gujarat.**

**While India was still tweaking its policies, Puri also entered more mature renewable energy markets such as Spain, Japan, Italy and Germany. His pipeline has 900 MW of additional solar capacity with a vision of reaching 2,000 MW by 2017. His company Hindustan Clean Energy Ltd has also committed to the MNRE to install 7,000 MW of solar projects. Puri is experimenting with wind energy these days, and has got one project in Karnataka. His commitment includes setting up of 3,000 MW of wind projects. Puri also has a portfolio of 520 MW of two hydroelectric plants in Himachal Pradesh and two thermal plants in Madhya Pradesh and Chhattisgarh, respectively. "Renewables have much quicker RoI (return on investment). If you place your bets right and manage your portfolio better, you can ensure better yields," he says. That's heartening to note.**

has challenged these norms at the World Trade Organization.

"India doesn't have manufacturing capacity to cater to this need. Neither do domestic players have access to capital to scale up their operations rapidly. There is a huge challenge for the government to help them scale up the capacity. One of the ways is to assure them off-take," says Kumar of PwC.

Besides, certain manufacturers, such as the large photovoltaic (PV) module maker Moser Baer, are financially weak to take full advantage of higher demand by expanding capacities. "We are in a debt restructuring mode... [but] we see a great opportunity in front of us," says K.N. Subramaniam, CEO, Moser Baer Solar. In fact, manufacturers pushed for anti-dumping duties against importers, but after Goyal's intervention in June last year, the complaint was withdrawn. "We are convinced that if the country moves towards protectionism, the perceived growth cannot be achieved," says Subramaniam. Goyal also echoes Subramaniam's views, saying, once the scale is large the domestic players will get a fair chance of growth, so will the industry. Can Indian players compete with Chinese and American majors, which are playing on the incentives, and grow as well?

There is hope there. In February, Adani Enterprises and SunEdison formed a joint venture to set up a PV panel manufacturing capacity at Mundra. SunEdison in a communiqué shared that this JV will invest $4 billion in next three years. One of the biggest Chinese PV manufacturers, Trina Solar, is in talks with Reliance Industries to set up a similar capacity.

## Viability Gap

Unfortunately, most state-run distribution companies – which will eventually buy the more expensive solar power – are in no financial condition to absorb the higher costs. So far, lack of political will has prevented state governments from charging higher rates from consumers. In India, 21 out of 29 state distribution companies are incurring losses. Rajasthan, the state most aggressive in solar power capacities, has a debt burden of a whopping ₹77,453 crore with accumulated losses of almost ₹6,000 crore. Madhya Pradesh is about ₹10,000 crore and ₹5,246 crore, respectively.

Anil Sardana, CEO of Tata Power, remains circumspect. He says the big challenge is creditworthy off-take of power. "The financial health of many distribution companies is poor, causing delays in payment for the power they procure," he adds. Tata Power has 54 MW of installed solar capacity in India, and is expanding its presence in Rajasthan.

Arundhati Bhattacharya Chairperson, State Bank of India, during a discussion on Financing Renewable Energy at the recently concluded Re-Invest, shared her concern about the health of distribution companies, and feared they may refuse to use renewable if it continues to be unviable.

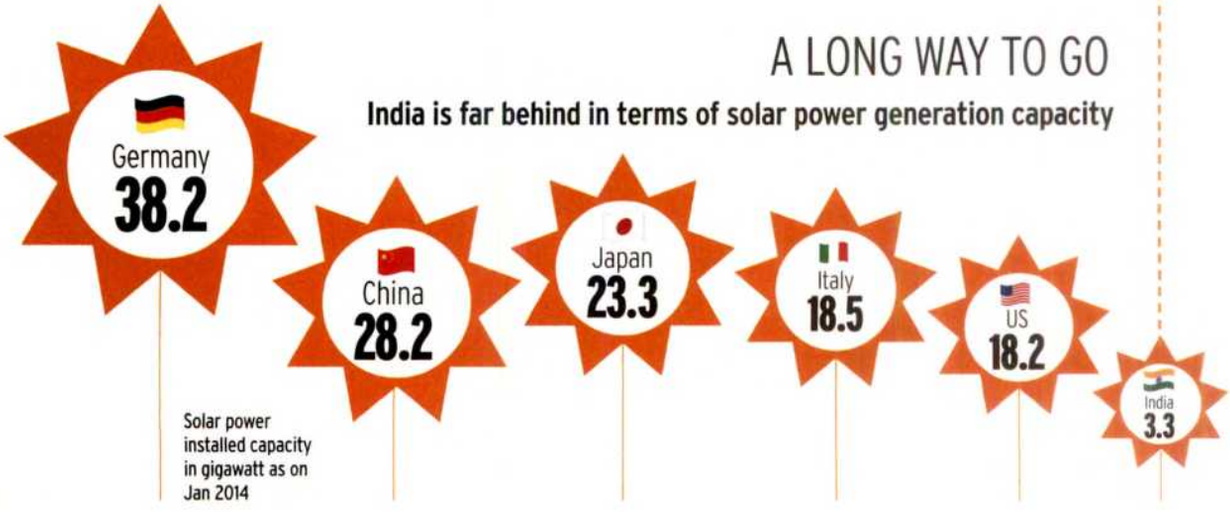
INDIA'S TARGETED SOLAR CAPACITY BY 2022
**100 GW**

The buck stops here, says, Sujoy Ghosh, CEO of US-based First Solar's India chapter. His company is the world's biggest panel manufacturer and is developing 200 MW capacity in Andhra Pradesh and Telengana. "If the power purchase agreement (PPA) becomes stable and bankable, it will not only make investments viable but will also give confidence to the ecosystem," he says. Today, investors are looking at the off-take surety. Arup Roy Choudhury, Chairman and Managing Director of NTPC, says he will only set up solar plants if state distribution companies assure to buy power at a 'sustainable' tariff.

One option is to bridge the viability gap by issuing tradable renewable energy certificates (RECs) that are bought by polluting industries to meet their carbon reduction commitments. However, REC trading has flopped in India. In 2014/15, the MNRE issued roughly 96 lakh certificates, but only 30.6 lakh could be traded. Out of this, roughly 10 lakh were from solar players alone, though only 39,000 were traded, that too at the floor

## A LONG WAY TO GO

**India is far behind in terms of solar power generation capacity**



price. "The health of distribution companies is not great, and most of them don't honour renewable purchase obligations," says Rahul Gupta, Director of Rays Experts, a firm setting up plants in Rajasthan.

## Tackling Tariff

One of the biggest challenges Goyal faces is in bringing solar tariff at parity with the grid. New solar units produce power at roughly ₹6.5 per unit. In comparison, coal based plants produce power at ₹3 to ₹4 per unit. This makes solar plants unviable until the government provides subsidies.

The amendments in the Electricity Act, 2003 pending in Parliament mandate thermal generators to add a certain percentage of new capacity from renewable resources. Most of these generators are public-sector companies, and once these amendments become law, these can be pushed ahead. This will allow big thermal companies such as Tata Power, Adani Power, Reliance Power, NTPC, and JSW Energy to leverage their balance sheets and asset base for cheaper debt (they will get a better rating from credit agencies).

In February, NTPC was asked to set up 15,000 MW of solar power capacity. "The government may also ask other profit-making PSUs, such as Coal India and SAIL to invest in solar, adding up to around five to six GW," says a senior RSS leader, actively working in the energy sector. It remains to be seen how their shareholders react as power generation is not their core business. "But they do consume electricity," the leader countered.

In the budget session, Power Minister Goyal clarified that the ministry is not looking for subsidy-based solutions. Mishra and Goyal also pushed other bureaucrats to look for plan B, C and beyond. "All we want is to reduce the tariff by another ₹1," says secretary Tripathy. Solar projects have four

## MAKE IN INDIA MODULES

### Growing local solar manufacturing will cut reliance on imports

On May 25, a day before Narendra Modi and his cabinet took charge, the PM called Piyush Goyal to inform him that he will be the country's next power minister with an enhanced portfolio encompassing coal and renewable energy ministries. The first thing Modi wanted him to do was to find a way to end the anti-dumping duty case filed by the domestic solar panel manufactures against the manufacturers from the US, China and Taiwan.

A Moser Baer PV manufacturing facility in Noida

"On May 21, days before we were supposed to take over, the commerce ministry recommended the anti-dumping duty to the finance ministry, knowing well how passionate we are for renewable energy," Goyal told *BT*. He added, "In the first meeting, I shared my plan to expand India's solar arena to 100 GW with the delegation of the solar manufactures, and they agreed and subsequently withdrew the compliant." That was in the larger interest of the nation.

After all, domestic panel manufactures can barely produce solar modules for 2.5 GW annually while under the new plan India was planning to add 15 GW every year. Despite US objections, the government retained the clause on mandatory domestic sourcing for projects requiring government subsidies, keeping roughly 3,000 MW for domestic cell makers. Most domestic players expect the projects to be tendered out in this fiscal, which would enhance their capacity utilisation. Meanwhile, in January, Noida-based Indosolar, entered into a contract with Korean company Osung to source wafers worth ₹1,250 crore till 2018.

Most developers are importing cells and modules due to various factors, including cost. What worries the government is low excitement amongst the players to set up

**new manufacturing capacities. During the MNRE's flagship event RE-Invest in February this year, the ministry received letters of commitment for setting up additional 5 GW capacity.**

**Higher investments in R&D in solar manufacturing will help India compete with imported solar modules on both cost and technology in the long run. If the domestic solar cell makers have to compete with foreign players, like US major First Solar, Canada Solar and Chinese companies such as Trina solar, they need to get out of their comfort zone and invest in new technologies and capacities. States such as Andhra Pradesh have even offered land to set up a university on renewables.**

**However, Adani Enterprises announced formation of a joint venture with SunEdison to invest $4 billion to set up a manufacturing unit in Mundra. This will be one of the biggest manufacturing facilities in India. "During the first half of 2015, SunEdison and Adani will complete a comprehensive analysis of the JV and business plan. Pending successful outcome of the study, construction of the facility will begin shortly thereafter. As the facility is built, certain portions will be completed first to allow key production lines to come online before the entire facility is finished. This allows the joint venture to ramp up production quicker, and creates more jobs sooner," says Pashupathy Gopalan, President of SunEdison Asia Pacific. Chinese major Trina Solar is also in talks with Reliance Industries and others to set up a similar facility.**

cost elements – cost of money, cost of capital, cost of operations and cost of dispatch. The idea is to reduce the cost of money. The Reserve Bank of India (RBI) recently reduced the repo rate by 50 basis points but that's not good enough. Currently, Power Finance Corporation, Rural Electrification Corporation, IFCI and Indian Renewable Energy Development Agency are lending at 12.5 per cent to 13.5 per cent. "At this rate it is difficult to make projects viable," says Mittal of Welspun.

The other idea being debated is bundling expensive solar tariff with the cheaper thermal tariff to arrive at a weighted average tariff. There is roughly 48,000 MW capacity in the country (thermal and hydel) which may retire by 2022, and a majority of this has a tariff of less than one rupee per unit. However, power ministry bureaucrats may puncture this idea. They prefer all ageing plants be refurbished with the supercritical technology to retain their coal linkage, which would be more lucrative, but would increase tariff.

"Our experience around the world says that once the commodity (electricity) comes down it expands the market size," says Ghosh. The ₹17 a unit tariff saw 50 MW a year addition, and today we are seeing roughly 2,000 MW a year with ₹6.5 a unit, he adds.

Meanwhile, at Charanka, the stream of visitors hasn't ebbed since the park was opened. The village now hosts 6,000-odd tourists annually, just to see the farm. A recent high-profile visitor was Bhutan's Prime Minister Tshering Tobgay in January. Whether the Modi-Goyal duo achieve their target or not, any number of solar parks that will be set up around the country will definitely provide local employment to the likes of Hitesh. And if they also become tourist destinations like Charanka, who would complain if India achieves even a fourth of its target? ◆

*@anileshmahajan*

## GLOSSARY

### Explanation of key terms

**REC:** A renewable energy certificate is issued to the operator of a renewable energy unit. This can be traded at the exchanges.

**RPO:** Renewable procurement obligation is a must for distribution companies to buy renewable energy on a predetermined target. This is meant to give renewable energy a push. It also allows discoms to move towards a green energy blend.

**RGO:** It stands for renewable generation obligation. The government is making it compulsory for thermal power companies to add renewable resources in their portfolio.

**FEED-IN-TARIFF:** In this a separate bid is not required for allocation. The promoter can plan power units anytime of the year, and can supply to their consumer as per conditions of PPA and grid rules.

**PV:** Photovoltaic modules convert solar energy into electricity using semiconductors. The photovoltaic method creates electric current or voltage, upon exposure to light.

**OPEN ACCESS:** This is a grid management tool that allows generation companies to directly sell electricity to the consumer.

**VGF:** Viability Gap Funding is a finance tool where a state determines the tariff and assures that the gap will be funded by the state's resources.

**BUNDLING:** This is a new formula the government is developing where certain unscheduled units from thermal and hydel plants with cheaper tariff will be bundled with expensive solar before it is offered to the discoms.

# BRICKS & CLICKS WHAT'S IN STORE

Brick-and-mortar retailers are strengthening their online presence to take on e-tailers. Will they succeed?

**By AJITA SHASHIDHAR**

**Total retail:** A customer using the shop-in-shop browsing facility at a US Polo store in Mumbai

RACHIT GOSWAMI

Godrej Group's premium food retail chain Natures Basket recently tied up with online retailers Snapdeal and Amazon India to take its gourmet food basket of over 400 products to 8,500 cities. The food retailer has also revamped its own e-commerce platform promising doorstep delivery within three hours. "We expect an exponential rise in traffic and conversion rates that can lead to about 10 times growth in our online business revenues," says Mohit Khattar, CEO, Godrej Natures Basket.

According to Khattar, the company will also tie-up with other online marketplaces (the likes of Flipkart) to widen the reach of its retail entity. "There is growing demand for premium food products and online is a great platform to make our products available through the length and breadth of the country," he says. Earlier, the company catered to only five cities – Mumbai, Pune, Delhi, Bangalore and Hyderabad – through its brick-and-mortar stores.

Natures Basket is by no means the only physical retailer trying out the online platform. Almost all Indian brick-and-mortar organised retailers are trying to get ahead of the curve and take on the e-tailers in their own backyard. Putting together an omni-channel strategy that links physical and web-based stores to offer customers multiple options to shop has become a necessity for the likes of the ₹10,000-crore Future Group, which has tied up with Amazon India to sell its private labels, and even for Reliance Retail, the country's biggest offline retailer, with its Reliance Fresh Direct.

While Future Group has invested ₹100 crore to spruce up its e-commerce strategy, Reliance promises 'convenience' with its online marketplace offering over 6,000 products. "Unlike most online retailers, who are playing the discounting game, our promise to consumers would be convenience and on-time delivery," says a Reliance spokesperson.

Fashion and apparel stores are not far behind. Shoppers Stop, for example, has invested ₹20 crore to link its online (*shoppersstop.com*) and offline activities. "Earlier, we were multichannel and our online store was not connected with the physical stores. Now we have realised that omni-channel would give us better economies of scale," says

**"Earlier, our online store was not linked to our physical stores. Now, we have realised that omni-channel would give us better economies of scale"**

**GOVIND SHRIKHANDE,**
MD, Shoppers Stop

NISHIKANT GAMRE

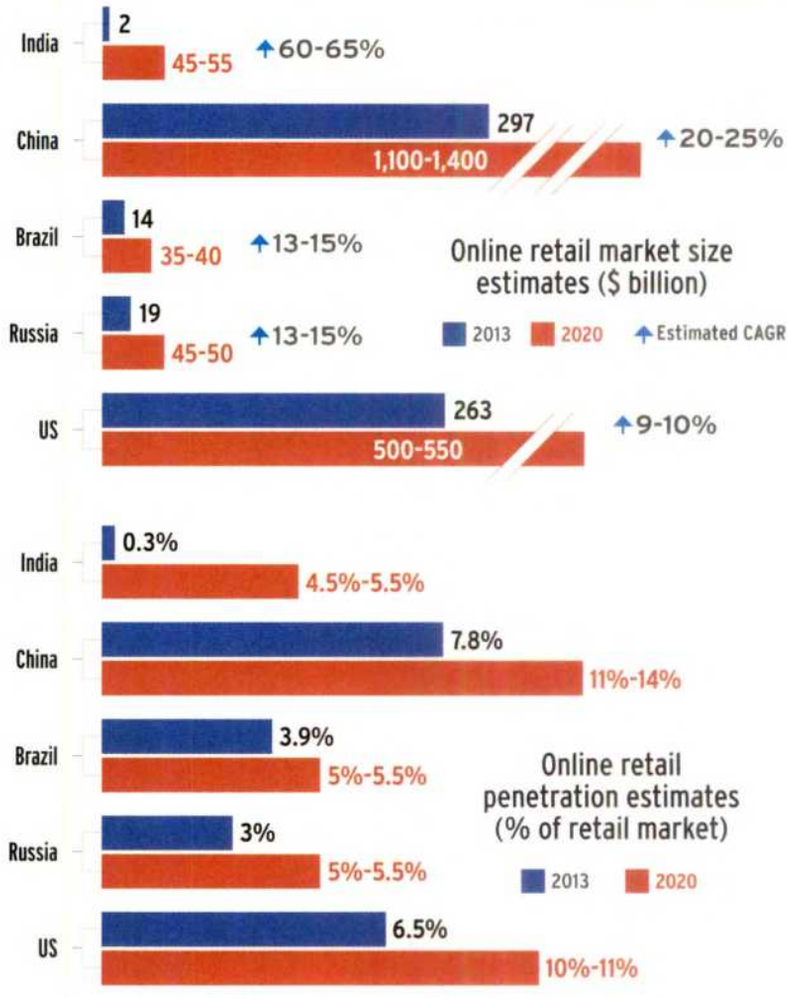
Govind Shrikhande, Managing Director, Shoppers Stop. The company expects its omni-channel play to be up and running in about a year, and contribute five to eight per cent to its overall revenue.

## The Wake-up Call

The alarmingly empty shopping malls during the festival season in 2014 came as an eye-opener for brick-and-mortar retailers, more so, as they had expected sales to pick up with a revival in consumer sentiment after India got a stable government at the Centre. But Flipkart's Big Billion Day and Amazon's Diwali Dhamaka week just before the festival played spoilsport, and several retailers such as Shoppers Stop and Big Bazaar registered a drop in same-store sales during Diwali. "A month before Diwali everyone was talking that it (October-December quarter of 2014) would be the best quarter in 10 years. Suddenly, 20 days before the festival, all hell broke loose," says Subrata Datta, CEO, Fabindia. The company will have its omni-channel strategy soon, he adds.

But, can the omni-channel retailing model get the brick-and-mortar brands back to their heyday? The strategy to linking physical and web-based stores can not only help retailers win customer confidence through the touch-and-feel experience at their physical stores but also benefit from their online sales channels on the back of technology-driven value-added services and timely deliveries. A seamless marriage of online and offline channels will offer the customer a host of options. One can either pick up a merchandise of one's choice from the store or buy it online. Alternatively, a customer could walk into a physical store and book the order using a digital kiosk if the product is out of stock and get it delivered at home.

**Catching up:** E-tailing in India has the highest growth potential




Source: A.T. Kearney, RedSeer Survey (2014), Euromonitor, IBEF, Nomura, Statista, China Ministry of Commerce, US Dept. of Commerce

## Rising to the Occasion

The fact that retailers across the board are suddenly looking at an omni-channel strategy is evidence enough that the online retail onslaught has made them nervous. Mukesh Sawlani, CEO of AND Designs, admits that physical retailers did not expect e-tailers to make an impact so early. "Nobody realised that the (e-commerce) market would grow so fast on the back of discounting. We also did not realise that so much money would pour in." Kabir Lumba, Managing Director of Lifestyle International, who recently launched a separate division to look after the company's e-commerce business, agrees: "We can't afford to be oblivious about e-commerce."

There are some exceptions, though. Kishore Biyani, Chairman of Future Group, says: "Lower footfalls and lower revenues (in our retail stores) last year was certainly not due to the onslaught of online retailers, but due to the festival season coming earlier than usual." Biyani claims that same-store sales during the festival season grew 14 per cent from a year earlier in the second half of 2014 – the highest ever

SHEKHAR GHOSH

in the company's history.

Analysts, however, feel the threat is imminent and offline players must face reality. "Our research shows that more than 50 per cent customers go online at some stage of the search and discovery process. So, by not being online, you lose 50 per cent of the chance of being considered by a set of customers," says Debashish Mukherjee, Partner (Consumer and FMCG Practice), A.T. Kearney. The consultancy projects the online retail market in India to expand to $55 billion by 2020 from $2 billion currently. Mukherjee expects the omni-channel business of brick-and-mortar retailers will contribute significantly to this growth.

Shantanu Rastogi, Principal at private equity firm General Atlantic, says e-commerce must be a part of a retailer's plan. "If a consumer is a loyal customer of your brand, but for some reason she is not able to travel to your store, she would want to buy it online. If you are not available online, she will end up investing on another brand and you may lose her forever."

## Online Play

Physical retailers are experimenting with various online formats. While the Future Group and Godrej Natures Basket are pushing sales through their own omni-channel presence as well as tie-ups with online marketplaces, consumer durables retailer Croma has joined hands with Snapdeal to expand its online reach. Sports lifestyle retailers such as Nike and Puma, on the other hand, have opted for a shop-in-shop format with online portals such as Jabong.

Says Kaku Nakhate, Country Head, Bank of America: "It is better for a brick-and-mortar brand to partner with an e-commerce partner and use the platform, because the person running e-commerce is more tech-savvy. There is no need for brick-and-mortar brands to take on the cost (of investing in technology) and burn themselves."

Jagat Dave, MD, Ambit Corporate Finance, prefers the dual strategy. He says it makes sense for fashion retailers, such as Fabindia, Madura Garments and Arvind, to have their own portals as well as tie-ups with online marketplaces as it would help them to manage their inventory better. "If a retailer is straddled with high inventories at select physical locations, he can leverage the reach offered by online through appropriate incentives," he says.

**"Lower footfalls and lower revenues (in our retail stores) last year were certainly not due to the onslaught of online retailers"**

**KISHORE BIYANI,** Chairman, Future Group

## "Nobody realised that the (e-commerce) market would grow so fast on the back of discounting"

**KABIR LUMBA,** MD, Lifestyle International

### At What Price

Pricing has become a sore point for almost all offline retailers. For example, when Myntra sells a Biba garment or a Hidesign bag at a 40 per cent discount, it has a negative impact on sales in the physical stores of the brands. "The biggest disadvantage for a physical retailer wanting to have an e-commerce presence is the inability to price arbitrage," says Nandini Chopra, MD of consultancy company Alvarez and Marsel. N. Shatrujeet, COO, Madura Garments, echoes similar views: "There is no way a physical retailer can compete with an Amazon or a Flipkart in terms of pricing."

But how do e-tailers manage to sell products at, say, a 40-50 per cent discount? "It's the online retailers' strategy to acquire customers," explains Chopra. It is not that they buy products from brands at a lower price, but incur losses to build a customer base. "A friend bought three designer *lehengas* from Jabong at almost half the MRP and was even offered the luxury of ordering three *lehengas* to pick the one she liked and return the others," she adds. Such deep discounts and innovative services have helped e-tailers race ahead in wooing customers, but the equity of brands that they sell take a beating.

However, most brick-and-mortar brands are now taking hard calls. "While it is tempting to take on as much business as you can, in the interest of the brand we have become brave enough to say that we will not partner with portals if they offer deep discounts," says Sawlani of AND Designs. Fabindia and Woodland, too, have decided to put their feet down. "Till last Diwali they went berserk and that started affecting our store sales. We called these guys and said we're stopping your shipment. For a month we kept very low. Now, they have started coming back and saying they will mend their ways," says Harkirat Singh, MD, Woodland.

Apart from that, offline stores are also looking at online-only strategies. For example, while Fabindia and AND Design allow online marketplaces to offer discounts on old inventory, Woodland has created exclusive lines of shoes for online consumption. "By doing so, we are ensuring our online products don't clash with our physical store products," explains Singh.

### Expanding Visibility

AND Designs plans to spruce up its omni-channel play by installing digital kiosks at all its stores across the 80 cities it operates in and link them to its online platform. "E-commerce will help us to reach out to 500 cities," says Sawlani. Shoppers Stop, too, is working on its omni-channel strategy to tap niche markets by selling exclusive brands such as L'occitane which will not be available anywhere but Shoppers Stop's physical and online stores, while Future Group is launching a host of smaller brands that are not available at its stores. "If an E-Zone store sells 30 brands of tablets at its physical stores, the unlimited online aisle would have 60 brands of tablets on sale, some of them being our own brands," explains a Future Group spokesperson. Biyani, in fact, wants to increase contribution of his private brands to 70-80 per cent from the existing 20 per cent on the company's omni-channel platform.

Innovation will also be key to grab eyeballs. For example, Madura Garments' omni-channel platform will not only sell garments but also play an advisory role. "Since it would be stupid on our part to fight a price war, we decided that our online platform should play an advisory role to fulfil a customer's stated or unstated needs. This will help

**SUCCESS STORIES:** Only a few retailers worldwide have cracked the omni-channel strategy

**JOHN LEWIS, UK:** A leading consumer durables and fashion retailer. Out of its £4 billion revenue in 2014, around £1.3 billion came from omni-channel sales. The retailer has perfected the click and collect formula, wherein the customer orders a product from home and collects it from the store.

**MACY'S, US:** One of the best-known multi-brand retailers in the US, Macy's delivered $3.1 billion of omni-channel sales last year, while its total sales stood at $27 billion.

RACHIT GOSWAMI

us to keep our consumers with us," says R. Satyajit, COO, International Brands and New Business, Aditya Birla Retail. The company has recently launched an initiative, Van Heusen My Fit, which gives suggestions on how to get a perfect fit.

## The Challenge

For most brick-and-mortar brands, e-commerce contributes 8-10 per cent of revenues globally. For instance, US retailer Macy's, which has the most successful e-commerce platform, reported $3.1 billion of omni-channel sales last year, while its total sales stood at $27 billion. Considering India's vast geography, prohibitively huge real estate prices and unfriendly regulations, one may expect e-commerce contribution for physical retailers to be much higher, but that would certainly not be the case because most retail brands have not penetrated the small towns and cities.

Unlike matured economies, where offline stores have helped create awareness about the benefits of online shopping among their consumers, in India it has clearly been an after-thought. "I would blindly shop at Macy's online. The price is not the sticky point, it is the brand which makes me access *Macy's.com*. But I don't trust *Shoppersstop.com*. The company has built 10 years of brand equity around its stores, but has never helped me build a habit to visit *Shoppersstop.com*," says Chopra.

Shrikhande of Shoppers Stop admits that the omni-channel play will be one of the toughest journeys for all brick-and-mortar retailers in India. "Connecting the 72 stores and four distribution centres to the 400 brands across eight sizes and stock-keeping units is never easy. It needs technology and a lot of data crunching. The other big challenge would be to ensure on-time delivery."

**"There is growing demand for premium food products, and online is a great platform to make our products available"**

**MOHIT KHATTAR,** CEO, Godrej Natures Basket

Though most brands will depend on third-party supply chain and logistics companies to deliver, there are teething problems even in that segment. "During the sale period, every retail brand is on sale and the logistics companies don't yet have the capabilities to deliver so many orders on

time," says Sawlani of AND Design.

To add to the woes of brick-and-mortar retailers, they do not have the kind of financial backing that their online peers have. "The fact that the likes of Snapdeal and Flipkart are able to offer such crazy discounts and set up the logistics chain is because they have the luxury of burning private equity money," says Chopra.

## Perishable Merchandise

Though an omni-channel presence is getting increasingly important for retailers across the board, the going will be very tough for food and grocery brands. "The big challenge would be handling supply chain and logistics as the category consists of a large amount of perishables. Neither the retailers nor the logistics providers are equipped for it," says Peshwa Acharya, former marketing head of Reliance Retail. Agrees Dave of Ambit: "Imagine delivering eggs or seafood to a home. That introduces a completely different element. You can't imagine the complexity in terms of inventory management, sourcing, and supply chain."

Says Khattar of Godrej: "We are not going to sell cold cuts, cheese and wine on Snapdeal. However, we do sell them on our own platform as that caters to a much smaller geography and we are able to handle the supply chain and logistics." Similarly, Shaswat Goenka, Sector Business Head, RPG Retail (Spencer's), says that considering the challenges of online grocery and food retail, his priority will be to first focus on the profitability of his brick-and-mortar stores before venturing into online food and grocery retail. "The logistics issues in online retailing kill the business," he says, adding that work is on to get the company future-ready with the launch of Spencer's Retail mobile app that would tell customers how far the nearest Spencer's outlet is and the best deals available at the stores. "The idea is to enhance customer service and win their loyalty before introducing newer platforms," he says.

Retailers must also keep in mind the kind of merchandise that they offer online. Though Biyani says that 70-80 per cent of his food offerings on the omni-channel platform will be private brands, Acharya says offering one's own brand of jam, biscuits, butter or wheat flour on the online platform will not work. "Retailers have to think out of the box and have to come up with differentiated products, ideally products that consumers will not find anywhere and would be willing to pay the premium for."

For example, Tesco Online in the UK gets a substantial chunk of revenue from its e-commerce platform. Apart from the regular branded products that Tesco sells, it also sells a large offering of gourmet food and wines under its own brand, which has a huge following. "A large part of Tesco's online sales come from these differentiated offerings. The Indian food and grocery retailers have to differentiate in order to be successful," he explains.

For Acharya, food and grocery retail is the holy grail of online retail. "Once it is cracked, it will be a cakewalk for the other verticals," he adds. Life will continue to be challenging for brick-and-mortar brands, but they must get their act together or risk losing the share of their wallet as well as footfalls to their online peers. "India has to go through the cycle where the customer has to first evolve. Retailers are up with a generation who want to buy from Jabong or Snapdeal for the discounts they offer. As they mature a set of more sophisticated customers will evolve, who will be willing to shop and spend online as well as at offline stores," says Rastogi of General Atlantic.

Till then, the challenge for brick-and-mortar stores is to help consumers develop both online and offline brand loyalty for their products by providing better shopping experience and improved services. ◆

WITH INPUTS FROM ARPITA MUKHERJEE

@AjitaShashidhar

## REVERSE TREND: Why online retailers are also in a hurry to set up physical stores

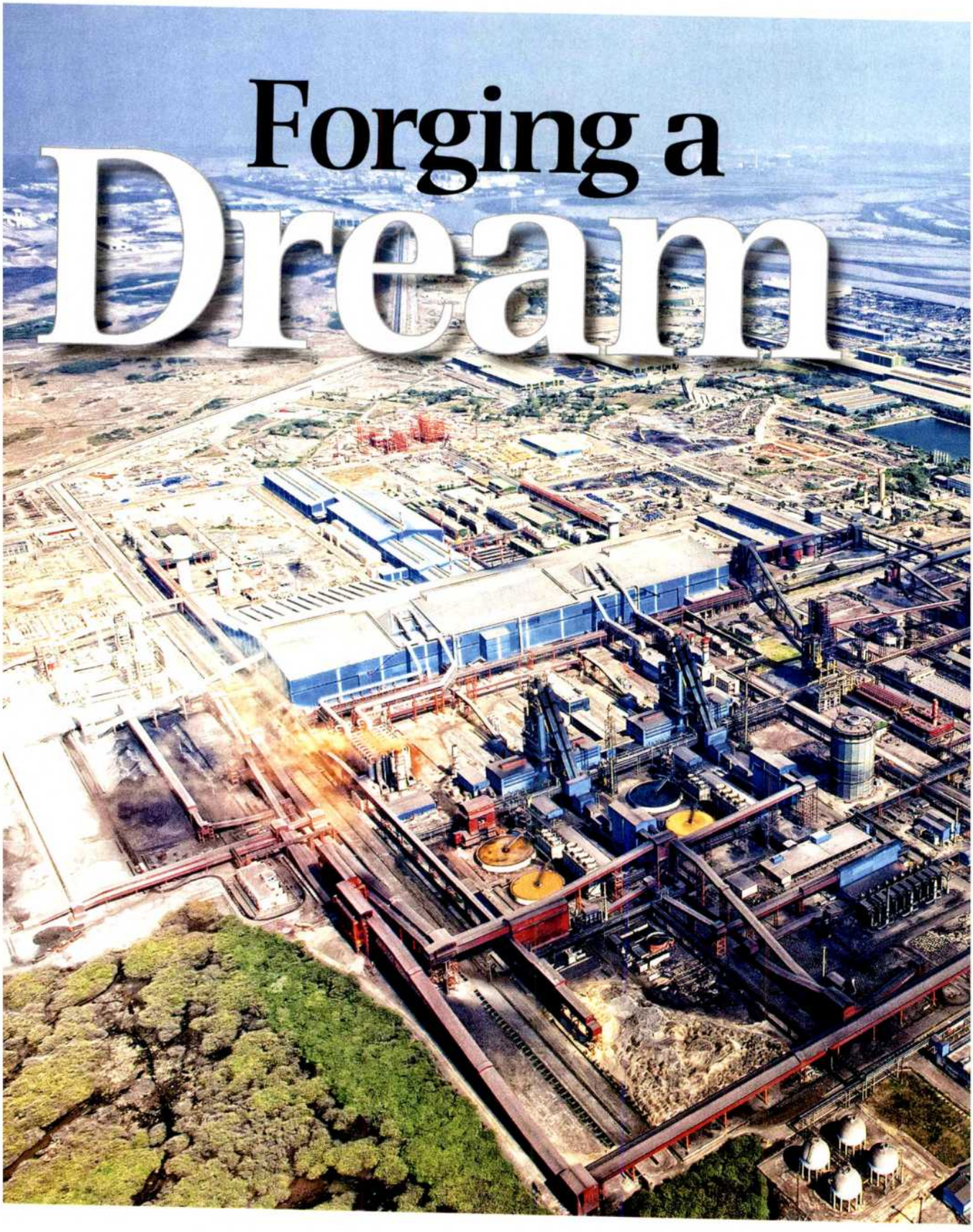
The online retail onslaught has compelled Indian brick-and-mortar brands to revisit their business models even though e-commerce is just two per cent of the organised retail market in India. While offline stores are busy reinventing themselves, online retailers, too, are investing in brick-and-mortar retail formats.

Online majors are increasingly feeling the need to create physical experiential stores where consumers can touch and feel the product – something that is missing on the online platform. The 300-400 sq. ft. retail stores are meant only for experiencing the product, while payment formalities are done online. Precious jewellery brand BlueStone, for instance, has invested in three stores in Mumbai, Delhi and Bangalore and plans to open many more. "Jewellery being a big-ticket item, we found that a lot of our customers were not comfortable to take decisions online without physically touching and feeling the products," says Gaurav Kushwaha, CEO, BlueStone.

Online furniture seller Pepperfry.com is also trying out with offline centres. The retailer opened its first physical experiential store in Mumbai last year, with 16 more lined up over the next one year. The physical store, points out Ashish Shah, COO and founder, Pepperfry.Com, has a team of four interior designers who help buyers custom-make the piece of furniture they have seen online to suit their needs.

Similarly, custom-made shirt brand Bombay Shirt Company, which started as an online store a few years ago, saw increasing demand from its customers wanting to touch and feel the fabrics. "Initially, we used to send cuttings of fabrics to people, but soon realised it wasn't viable," says Akshay Narvekar, founder, Bombay Shirt Company. The second challenge was getting the right measurement. The retailer, therefore, decided to create physical stores where people can not only touch and feel the fabrics but also get the tailor to take measurements to ensure customers get the perfect fit.

# Forging a Dream



Essar Steel's Hazira complex in Gujarat

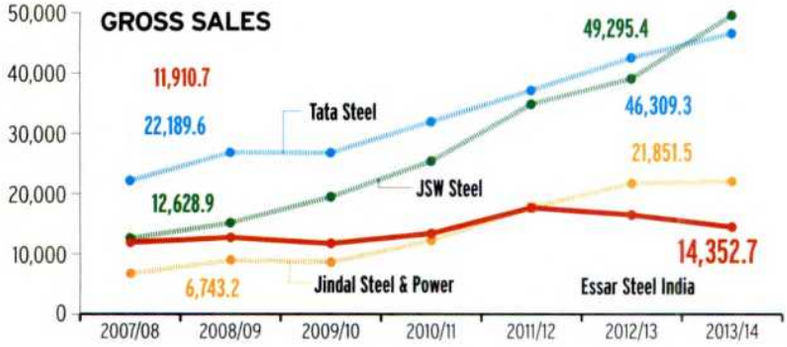
# Putting the shine back into debt-laden Essar Steel will not be easy despite its grandiose plans.

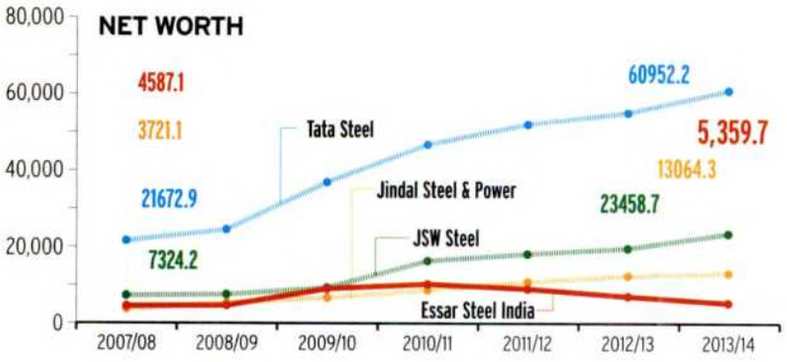
**By NEVIN JOHN**

Firdose A. Vandrevala, Executive Vice Chairman of Essar Steel, has a tough job at hand. The steel industry veteran is working hard to turn around the company, but the odds are heavily stacked against him. The steelmaker is saddled with massive debt, posted heavy losses for four years in a row, and is operating at half its capacity. Slowdown in China, the world's largest consumer of the alloy, as well as rising inventories and falling global steel prices, have added to his woes. The company's misery, however, is mostly its own doing.

In 2007, the company charted an aggressive plan to triple its production capacity to 25 million tonnes by

**THE LAGGARD:** *Essar Steel is in a weak financial position compared to its private sector competitors*





Figures in ₹ crore, standalone results; Source: ACE Equity

2012 in Asia (including India) and North America. The plans went awry after the collapse of Lehman Brothers the following year, sending shockwaves through the global economy and roiling the commodities markets. Shares of top global steelmakers, such as ArcelorMittal and Tata Steel, lost as much as four-fifths of their value, and the industry stared at a bleak future. At a time when prudence should have been the watchword, Essar Steel continued to borrow to fund its aggressive growth plans. Between 2007/08 and 2013/14, the company's debt soared fivefold while its sales grew only 20 per cent. Its 2007 acquisition of Canadian steelmaker Algoma for $1.5 billion also proved to be challenging with the unit filing for bankruptcy protection in July 2014. "The company failed to react quickly to the economic volatility during the time of expansion," says Vinayak S. Bapat, President and CEO, VXL Consulting.

Clearly, Vandrevala has his task cut out. The Tata Group veteran, who joined the Ruias-controlled company in August 2013, says he has drawn up a plan to turn around Essar Steel by ramping up output, cutting costs, focusing on value-added products and raising funds. A number of global and local factors bode well for him – low crude oil and gas prices, the Centre's efforts to boost investments in infrastructure and defence, positive sentiment around the economy and Prime Minister Narendra Modi's Make in India and Smart Cities initiatives, among others.

But, it's easier said than done. According to Arun Kejriwal, Director, KRIS Capital, an investment advisory firm, the company's liabilities are high and it will need three to four years for a turnaround. "Essar Group made these mistakes in most of its companies. The loan defaults are high in the group," he adds.

## Stumbling Blocks

Essar Steel has struggled with elevated debt levels even before – it had

defaulted on a loan in 1999, before turning around in 2002/03. The company again went through a difficult phase during 2011 to 2014 and is now at the bottom of the pit among its peers. Its debt level on a standalone basis is higher than other private sector steelmakers; its sales have grown at the slowest pace and it posted losses in four out of seven years since 2007/08 (see *The Laggard*). In comparison, Tata Steel, JSW Steel and Jindal Steel and Power did not post losses during the period.

By 2013/14, Essar Steel had amassed a whopping ₹37,559 crore in consolidated debt, and its interest payout in servicing it stood at ₹4,580 crore during the year. While this had initially made bankers reluctant to cater to its working capital needs of ₹4,000 crore to fund Vandrevala's ambitious revival plan, the $35 billion Essar Group's backing helped it bag the much-needed cash. Essar also had similar issues with Algoma. After an infusion of $300 million by the Group, the Algoma unit refinanced its liabilities and deleveraged its balance sheet by $200 million. It also reduced its cash interest by $47 million. The measures helped Algoma post a profit of CDN$26.8 million in the third quarter of 2013/14, compared with a net loss of CDN$38.6 million a year earlier.

Regulatory hurdles at home, curb on industrial gas allocation and unavailability of raw material during the past four years also proved to be a bane that Essar Steel could do without. The fall in gas production at the Krishna-Godavari Basin, which affected the overall availability of gas in the country, prompted the Centre to give priority to city gas distribution over industrial use. Essar Steel's gas-based production capacity at Hazira in Gujarat took a hit, with 6.8 MT of the total capacity of 10 MT shutting down.

> "Product development is not only an R&D job. **It should be a joint effort of** marketing and sales teams, operating staff and potential customers"
>
> **FIRDOSE VANDREVALA**
> Vice Chairman, Essar Steel

RACHIT GOSWAMI

The company's backward integration plans, too, suffered due to a three-year delay in getting regulatory approvals for the 253-km long slurry pipeline connecting the beneficiation plant at Dabuna to the pellet plant at Paradip in Odisha. "The operational costs would have come down by 15 per cent if backward integration had been completed on time," says an analyst. However, industry executives are not convinced. "The situation was same across steel companies. But Essar was less aggressive in production and sales. Despite the challenges, Tata Steel and JSW Steel continued producing over 80 per cent of their capacities," says a Tata Steel executive.

## Ray of Hope

According to Vandrevala, things are looking up for the beleaguered steelmaker with the completion of the integrated pellet facility at Paradip and increase in production at the Visakhapatnam facility. "We are operating around 50 per cent of the capacity, up from 30 per cent in 2013/14. We look forward to raise the capacity utilisation to 100 per cent as demand increases," he says.

Essar Steel raised ₹2,800 crore through equity and other options last year and, subsequently, another ₹750 crore by selling its oxygen plant to strengthen its long-term needs. It is also planning to raise an additional ₹4,000 crore through the sale and lease back of its slurry pipeline to create additional free cash flow to meet its financial obligations. "The steelmaker has the Essar Group's backing and this will help it to sail through the crisis, partly by restructuring and mostly by paying off its debts. But the turnaround time will be longer," says Bapat.

Industry experts expect the overall cost of production to drop by 15 per cent. It has replaced its debt in Indian rupee with dollar to reduce interest cost by six per cent. This will help the company save ₹720 crore annually, besides stretching the loan

period from three-and-a-half years to almost seven years. It plans to dollarise an additional $1 billion during 2015/16 to save another ₹360 crore. Apart from optimising capacity and paying off its debts, Essar Steel has entered into long-term contracts with buyers to improve its pre-tax profit. "The annual pellet production will go up from 5.5 million tonnes to 12.5 million tonnes in the coming financial year," says a company executive.

A Mumbai-based investment banker says most national and international banks have exposure to Essar Group companies. "Essar Steel is the worst performer among its peers. So, its recovery is also important for banks. We expect it to come out of red with the change in fortune of the commodity cycle," he adds.

The fall in crude price will also benefit Essar Steel. The US Federal Energy Regulatory Commission data says the landing cost of liquefied natural gas (LNG) in India in March 2015 is estimated to be $6.9 per million British thermal units (mmBtu), down from $13.65 in May 2012. From November 2014, the price of gas produced in India was revised to $5.61 from $4.2. "At around $7, Essar could enter into long-term contracts and save five per cent cost," says an analyst.

## Innovation Holds Key

Vandrevala is also restructuring the company's R&D division into three verticals – process development, product development and raw material beneficiation and optimisation. "Product development is not only an R&D job. It should be a joint effort of marketing and sales teams, operating staff and potential customers," he explains. "Earlier, R&D could only develop a specialty product (without knowing the market dynamics). Now, before we take up a project, there will be a concept note on the product to be developed, potential market, estimated market share and returns. Our new researches will be demand driven."

Deven Choksey, MD of KR Choksey Shares & Securities, says the offtake of steel products will rise with the revival of the economy. "There will be demand for new products. There are two positive factors for the company – lower energy costs and the positive sentiments around India. But, the company should not scale up like the way it did earlier," he adds.

M. Venkatraman, former DRDO scientist, who spearheads Essar Steel's specialty play, says the company has developed more than 50 new products in auto, yellow goods, defence and energy segments. The steelmaker works for the prestigious India-based Neutrino Observatory (INO) Project of the Department of Atomic Energy and Department of Science and Technology, supplying magnetic steel for building neutrino detectors 1,200 metres under the rock cover in Theni and Madurai. The INO's objective is to conduct basic research on elementary particles called neutrino. Another product it has developed is the lightweight ballistic missile-resistant steel for battle tanks. "We expect commercial orders for the product, along with ultra-high strength steel for the Indian Navy," says Venkatraman.

> "We expect commercial orders for lightweight **ballistic missile-resistant steel** for battle tanks, along with ultra-high strength steel for the Indian Navy"
>
> **M. VENKATRAMAN,**
> Senior VP & Head R&D, Essar Steel

It has also introduced reinforced galvanised-steel for automotive, construction and engineering segments. The steelmaker has larger presence in flat steel, hot and cold-rolled steel, galvanised steel, extra-wide plates and pipe. "The plate mill products have an order book for two years' production. The pipe mill has an order book for six months," he says.

Though value-added products fetch a premium of 15 to 25 per cent compared to (base grade) steel, the benefits will be short term, and the Essar has to stay ahead of the curve. "If you innovate a product, others will copy it with additions in a year's time. So, it is a one-year window. For being relevant in the specialty market, you need to innovate continuously," says a Tata Steel executive. In 2014/15, the company expects 30 per cent of its sales to come from its premium products, up from 25 per cent last year. "We keep bringing it up slowly. Otherwise why should we develop it?" quips Vandrevala.

Despite his efforts to create a niche for Essar Steel and ride the wave of positive developments, Vandrevala's success will depend on how global and domestic factors pan out. As long as the man and his team do not lose focus and remain prudent, and are willing to learn from past mistakes, it's good news for the beleaguered steelmaker. ◆

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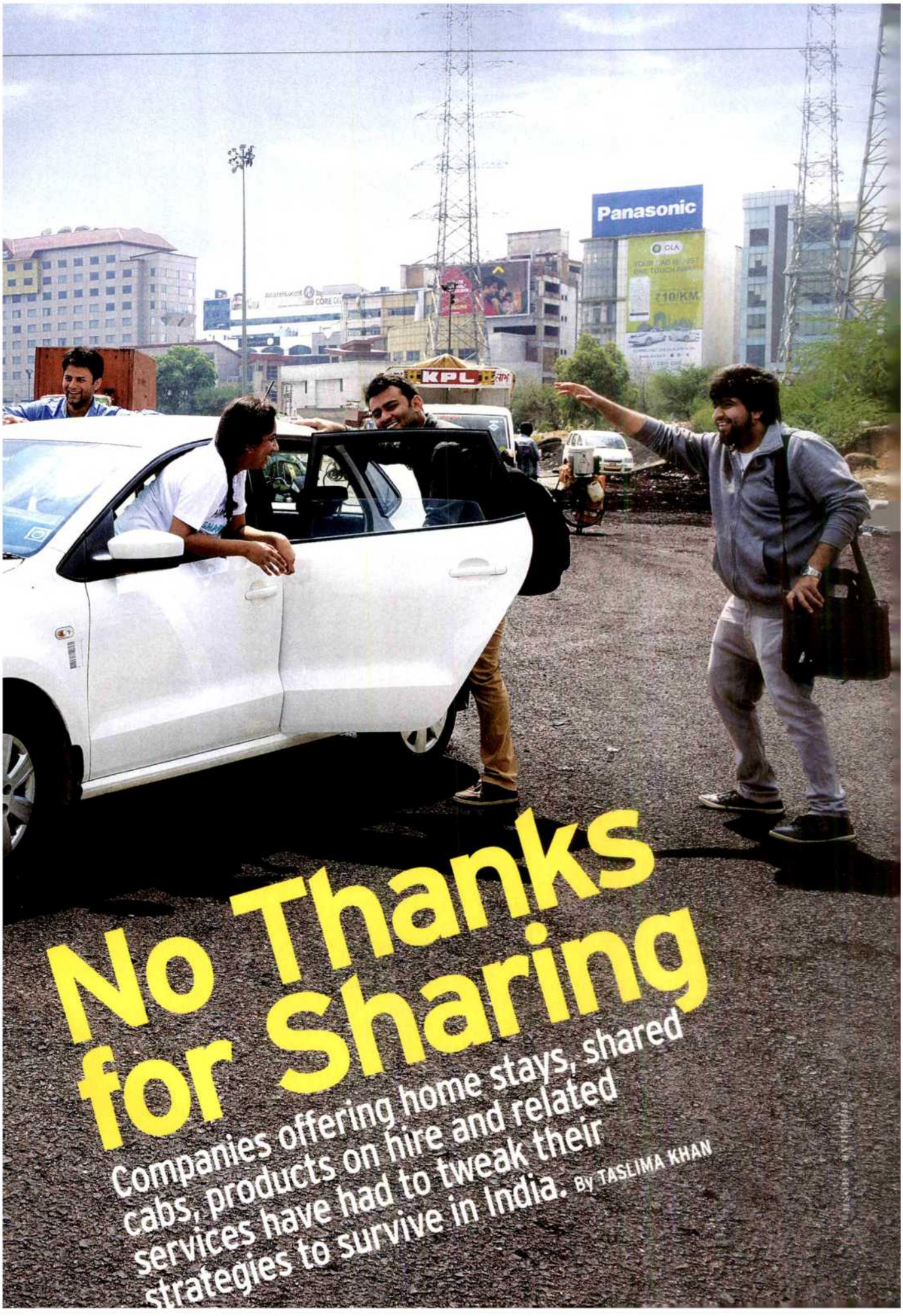
**Latest entrant:** Nitish Bhushan, Country Manager (India) of German online carpooling marketplace Tripda




# No Thanks for Sharing

Companies offering home stays, shared cabs, products on hire and related services have had to tweak their strategies to survive in India. BY TASLIMA KHAN

SHEKHAR GHOSH

A. K. Gupta started Prakash Kutir Bed and Breakfast, a bed and breakfast (BnB) service, at his home in Hauz Khas, Delhi, just before the Commonwealth Games in 2010. It was not a success. Most foreign tourists preferred the four- and five-star hotels, while visitors from other parts of India flocked to the cheaper ones in Paharganj and Karol Bagh. When Indian visitors did arrive, there was mutual disenchantment – he was unhappy with them and they with him. "Indians make no distinction between a home stay and a hotel and expect a 24-hour service," he says. Most of the 400-odd people who got licences to run BnB services during the Games suffered the same fate. Two-and-a-half years ago, Gupta listed Prakash Kutir on global accommodation finder Airbnb. Since then, his guests have all been foreigners who want a glimpse of the Indian culture. He doesn't entertain Indians.

Airbnb is among a clutch of companies giving rise to the sharing economy in many parts globally. It encompasses home stays, shared accommodation, using personal vehicles as cabs, renting out personal products for short and long periods, etc. In her book *What's Mine Is Yours: the Rise of Collaborative Consumption*, Rachel Botsman defines the sharing economy as "a phenomenon where people participate in organised sharing, bartering, trading, renting, swapping and collectives to get the same pleasures of ownership with reduced personal cost and burden and lower environmental impact". In India, however, attempts at creating a sharing model has invariably run into problems. In cars, homes or even others, entrepreneurs have had to abandon the sharing economy model. And some proponents abroad do not even offer the option here.

## Home Truths

Started in August 2008, Airbnb lists over 600,000 properties across 192 countries and is likely to be valued at $20 billion in a forthcoming funding round, but remains lukewarm in India. Airbnb provides a platform for prospective hosts and guests to connect with each other. Both shared and private accommodation – single rooms as well as complete houses – can be booked through its site which requires the traveller to send a request to the host and await his reply. It opened in India in mid-2012, and its performance can be gauged from the fact that its India head Amarpreet Bajaj ignored *BT*'s repeated interview requests. (Neither does Airbnb provide any India-specific numbers.) Mohit Srivastava, former Airbnb Managing Director for the Indian subcontinent and the United Arab Emirates, says cryptically: "Consumer expectations for short stays are very different from those in

**"When I book a room, I should get instant confirmation and the price should be predictable"**

**RITESH AGARWAL,** CEO, OYO Rooms

long-stay accommodation. Travel is a lifetime experience and there are many more emotions attached to it."

Home stays ought to be attractive since many of them cost as little as ₹1,000 a night while even budget hotels charge around ₹2,500. But it speaks volumes that other companies which sought to emulate Airbnb have changed track. One such is Gurgaon-based OYO Rooms – formerly called Oravel Stays – which focused on home stays when it began in 2012, but has since shifted to conventional hotels, forging links with 115 hotels across the country offering 1,400 rooms.

CEO Ritesh Agarwal, all of 21, spells out the expectations Srivastava referred to. "When I book a room, I should get instant confirmation and the price should be predictable. When I land in a city, I should be able to locate or call the hotel easily. The hotel should meet my standards relating to temperature, cleanliness, room service and ease of check in. When I check out, I should be able to pay by credit card." Only half in jest, he adds: "I should have the right to shout at the person who serves me breakfast."

Since home stays often do not satisfy these conditions, Indians have not been enamoured by them. Following its change of strategy, OYO Rooms, in its last funding round in March this year, raised $24 million, led by Greenoaks Capital.

Again, home stay hosts often lay down conditions that hotels do not. Some want only vegetarians, or teetotallers, or families – no single travellers – as guests. North Indian hosts are sometimes uncomfortable with South Indian guests and vice versa. "Often, Indians don't want a side business interfering with their daily lives," says Yogendra Vasupal, CEO, Stayzilla.com, which lists 20,000 'properties', both hotels and home stays. Travellers, too, do not like having to seek the host's permission to stay, given that they will be paying for it. They also want help of all kinds which home stay owners are not equipped to provide. "We manage the traveller's experience end-to-end, deciding the right properties to stay in through a filtering process, acting as concierge on call, checking everything, etc.," Vasupal adds. Stayzilla recently raised $20 million in PE funding led by Nexus Ventures.

## Car Trouble

Cab aggregators, too, have tweaked their strategy in India. In the West, the most popular model and the best known among them, Uber – valued at $18 billion in its last round of funding in 2014 – is that of peer-to-peer ride sharing, or private car owners registering with the company and offering rides – for a price – whenever they find it convenient. In India, the only car owners who register with Uber are those who drive for a living. "We don't do peer-to-peer in India," says Gagan Bhatia, MD, Uber, Delhi. "It is still sharing because an Uber driver can work with multiples taxi companies if he chooses. He can also choose when to be online on the system and when not." He also notes how Uber has been empowering its drivers. "We have a vehicle financing scheme to enable drivers to buy cars at cheap rates," he says. "In effect, we are turning drivers into small businessmen. Next to the US, India is where we have financed the largest number of cars."

But services Uber provides elsewhere, such as Uber Pool or Split Fare, where passengers on a common route split the fare with the money being deducted from their bank accounts, have not been introduced in India. "In the West, people have no hang-ups about driving others around. That is unthinkable in India. People don't want to be thought of as taxi drivers," Bhatia adds.

Given Indian conditions – the high cost of car ownership, the poorly maintained, chaotic roads – organised carpooling ought to have had great potential. But all the local start-ups which have tried it, such as SharedCab in Mumbai, started in October 2012, MoveInSync (earlier called in RideInSync) and Cubito in Bangalore, begun in 2009 and 2012 respectively, have moved on to offering employee transport solutions to companies. The latest entrants are Tripda from Germany, with services in 11 other countries, which entered last November, and BlaBlaCar from France, with services in 12, which came in this January. "It is puzzling why none of the start-ups in this field have taken off so far," says Samir Kumar, MD at VC firm Inventus Capital which has invested in

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NILOTPAL BARUAH

MoveInSync. "Perhaps, it is because of the kind of society we are. Or maybe we need much more technology and higher quality apps."

## Low Hiring

What about hiring out goods? In her book, Botsman estimates the global peer-to-peer sharing or rental industry at more than $26 billion. Companies like Zilok in France and Erento in Germany have made a huge success of it; New York-based RenttheRunway, which helps people rent designer dresses for a specified period, was valued at over $220 million in its last funding round when it raised $60 million. In India, the industry is still very nascent. Among those trying is Bangalore-based Rentongo, begun in 2012, which puts people looking to hire things like furniture, home appliances, bikes and adventure gear in touch with small vendors or individuals who want to rent them out. "The going has been tough," says founder Nikhil Chhabra, an Indian Institute of Management, Kolkata graduate. "The industry is very small. People are sceptical about sharing." If renter and hirer are located far apart, the deal also involves high transportation costs – a further disincentive. Chhabra even sought advice from Erento CEO Rob Paterson, but it has not made the going easier.

Engineering graduate Saran Shivarajan, who started the Kochi-based Kindset in 2013 to share books – and had hoped to move on to other products – has already given up. "Often the value of the product does not justify the time and effort spent in renting it. Many feel buying outright through e-commerce is a better option when products are delivered at their doorstep." Shivarajan plans to provide an online platform for making donations instead. "Philanthropy is a much better established concept in India than sharing," he adds.

Two more hurdles companies in this segment confront in India are those of trust and safety. Many customers remain unsure if the home stay or the product available for hire is as good as the online advertisement claims. Rentongo's Chhabra feels intervening in every transaction, rather than merely providing a platform for rental classifieds, could give customers more confidence. There are reviews and ratings, no doubt, on most sites, but how authentic are they? Airbnb seeks to make its reviews authentic by allowing only those who have stayed at one of its listed properties to post on its site. Uber insists customers rate the driver at the end of every ride and if they found him unsatisfactory, explain why.

Safety, especially in shared cabs, became a huge concern after the alleged rape of a woman passenger by an Uber car driver in Delhi last December. Uber remains banned due to regulatory challenges in several global cities, including Fukuoka in south-west Japan and

> "Paying guest and shared accommodation are picking up because young people are leaving their hometowns early and rentals in big cities are becoming unaffordable for them"
>
> **PANKHURI SRIVASTAVA,** Co-founder & Chief Marketing Officer, Grabhouse

See interview with Ritesh Agarwal at businesstoday.in/oyorooms-agarwal

VIVAN MEHRA

Thailand. Some of its specific services like UberPOP are banned in Germany and France. In India, the Uber's services along with those of other app-based taxi-services like Ola are banned until they obtain the radio-taxi licenses. The company has roped in US background screener First Advantage to verify the credentials and backgrounds of all its Indian drivers, realising that both driving licences and police verification reports can be faked or manipulated in India. It has also made all cabs registered with it install an SOS button which can connect passengers to the nearest police station as well as the mobile app Safetipin which assigns safety scores to city locations. Starting with a pilot project in India, Safetipin will also be provided in cities like Colombian capital Bogota and Kenyan capital Nairobi.

Some others are using social media for basic profile checks. Tripda only accepts passengers with Facebook accounts so that those sharing rides can check one another's profile information. It verifies email addresses and mobile numbers of drivers and passengers. It also has a 'women only' carpool service with women drivers. But people can lie while setting up their profiles and most players agree there is no foolproof background check available.

> **"In the west, people have no hang-ups about driving others around. That is unthinkable in India"**
>
> **GAGAN BHATIA,** MD, Uber, Delhi

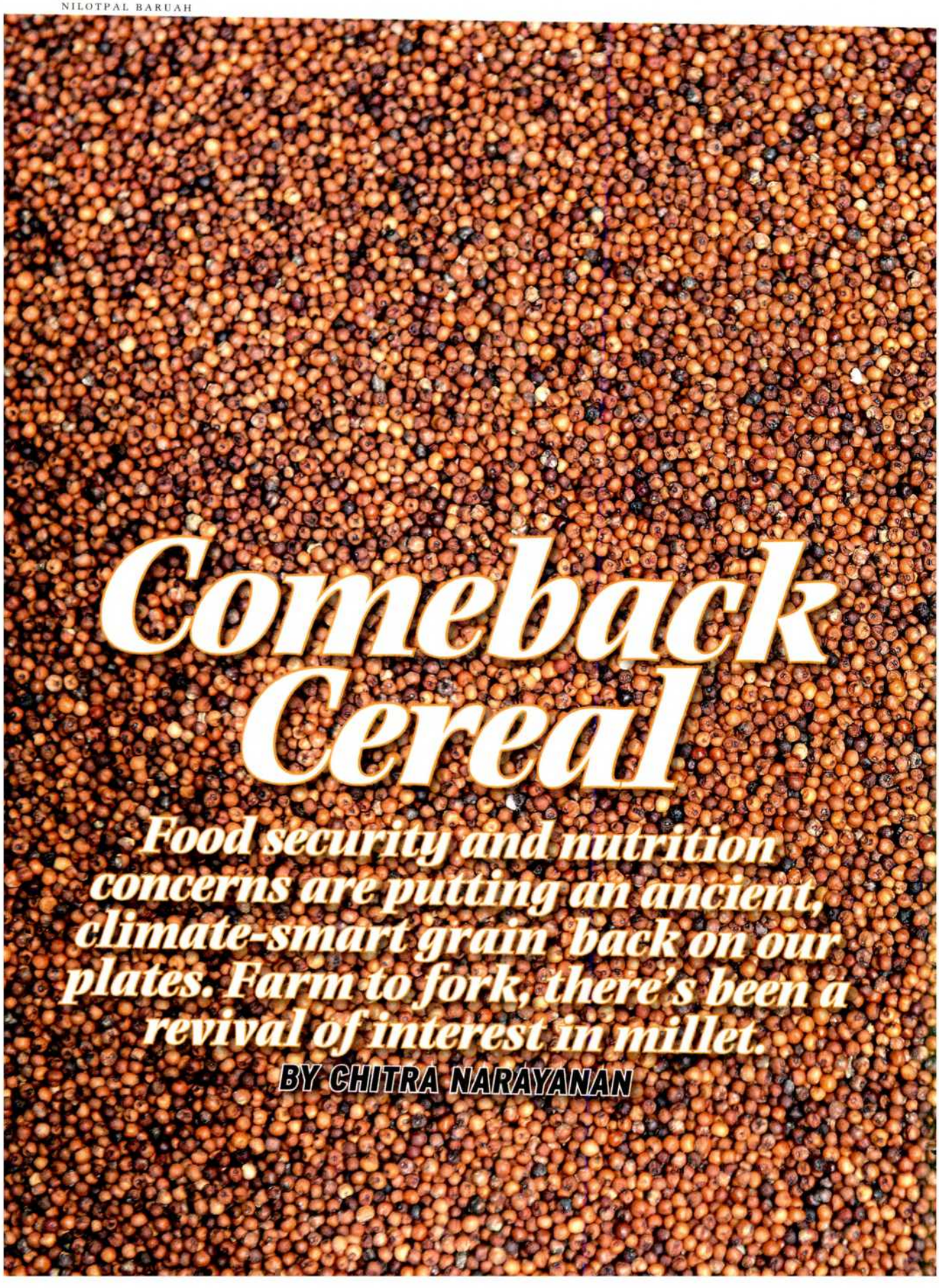
## Ray of Hope

Still, share economy proponents have not given up and are banking on the fact that 65 per cent of India's population is below 35. "The younger people are, the easier it is to change the way they do things," says Pedro Meduna, Global CEO, Tripda. "With the highly developed tech scenario in India, the sharing economy has a lot of potential." And in fact, the long-term accommodation sharing segment – as distinct from short-term home stay – where young people predominantly are involved, is showing some hopeful signs. An example is Bangalore-based start-up Grabhouse, started in July 2013, which lists paying guest accommodation and apartment sharing opportunities in the cities of Bangalore, Mumbai, Pune and Hyderabad. It has 58,000 properties listed, adds around 900 new ones a day, and gets about 1,000 to 1,200 daily enquiries.

"Paying guest and shared accommodation are picking up because young people are leaving their hometowns early and rentals in big cities are becoming unaffordable for them," says Pankhuri Srivastava, Grabhouse's co-founder and Chief Marketing Officer. For safety and authenticity, Grabhouse eschews brokers, carrying property listings directly from owners. Its website also has a feature called 'Social Connect', which searches for people already listed who are personally known to the applicant or at least went to the same educational institution, or worked in the same company. "We recommend strangers as accommodation sharers only as a last resort. And even when we do, we try to ensure lifestyle preferences are alike – attitudes to smoking, drinking, vegetarianism, pets and guests staying over are similar," says Srivastava. ◆

*@KhanTaslima*

NILOTPAL BARUAH



# Comeback Cereal

**Food security and nutrition concerns are putting an ancient, climate-smart grain back on our plates. Farm to fork, there's been a revival of interest in millet.**

BY CHITRA NARAYANAN

Who would have believed that a rice-obsessed state like Tamil Nadu will so easily embrace another grain – that too, the lowly millet. If you need proof, just zip across to a tiny lane opposite the Adyar bus depot in Chennai. It houses Prems Graama Bhojanam, a small, unprepossessing restaurant that is rustic in its simplicity and has a limited menu. Yet it is creating quite a buzz in the city, thanks to its "millets only" positioning.

The staple rice dishes in a south Indian *thaali* – lemon rice, *sambhar* rice, *rasam* rice, curd rice – are all there in the restaurant's platter but made with millet. Almost every kind of millet is represented, including the kodo millet, barnyard millet, little millet and foxtail millet, which adds an edge to the sweet pongal with jaggery. *Idlis, dosas* and *chapattis* at the outlet are all made from millet flour.

This restaurant, inaugurated in September 2014, is a labour of love for N.S. Krishnamoorthi, a former executive at HUL and Ruchi Soya. It took him months of research studying traditional recipes to get the menu, taste and consistency right. For instance, millet *idlis* have a tendency to be hard – he managed to make them as soft as rice *idlis* after three months of intense trials.

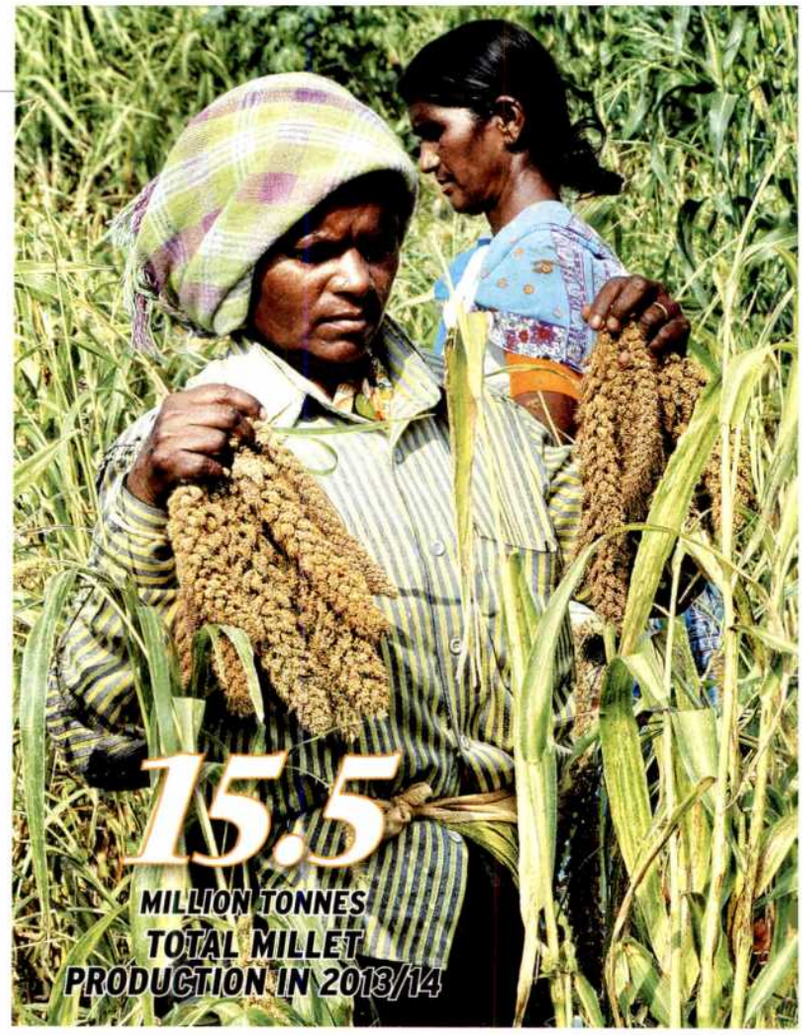
Krishnamoorthi's timing could not have been more right. Millet mania is sweeping across Chennai. Prone to diabetes, skewed lipid profile and various lifestyle diseases, residents of the city are switching over to a high-fibre nutritious diet. There is the ubiquitous oats but it is not indigenous. The search for a local grain that would fit well into our daily recipes has led people right back to millet – a small seeded grass grown as cereal – which used to be a staple in Indian kitchens half a century ago. You could say that millet is fast emerging as the new oats. In India popular millets are *ragi* (finger millet), *jowar* (sorghum) and *bajra* (pearl millet). There are also a whole group of minor millets like foxtail millet and proso millet.

Walk into any grocery store in Chennai and shelves would be lined with ready- to-eat mixes of *bajra idli, ragi dosa* and millet pancakes. Organic showrooms selling millet flour have opened up in several neighbourhoods in the city. In Besant Nagar, yet another millet-based restaurant, Food Karma, has been launched. Finally, the perception prob-

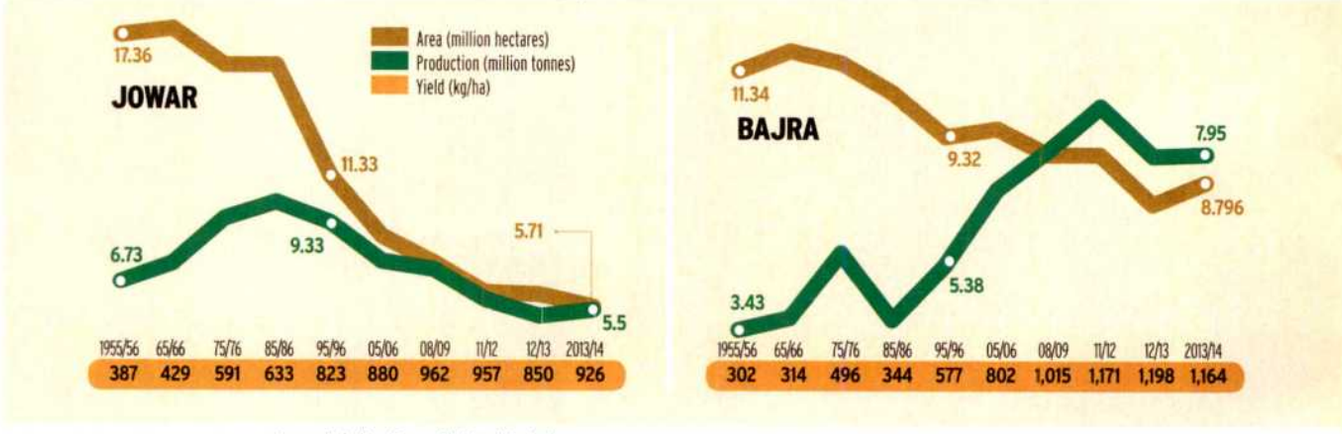
lem among the middle class that millet suffered from – as a heavy food suitable only for people who do hard physical labour – appears to have been overcome.

Even among the lower-income groups, who had drifted away from the grain, consumption is picking up. Chennai has traditionally had push carts serving affordable *koozh* – a *ragi*-based porridge with a buttermilk base. Between 2009 and 2014 there has been an explosion in the number of these push carts, reports the MS Swaminathan Research Foundation which conducted a field survey.

Chennai isn't alone. Hop across to Karnataka and the state seems to be in the throes of a major *ragi* (a millet variant) revolution. Of course, Karnataka has always had a *ragi* eating habit among the traditional set. A prime example is former prime minister H.D. Deve Gowda, who at 81 attributes the secret of his good health to a diet of *ragi mudde* (a soft brown roundball made out of millet powder). Sadananda Maiya, who built MTR Foods into a giant brand before selling it and now runs




**MORE IN LESS:** A dramatic rise in crop yields means a smaller area is needed for cultivation



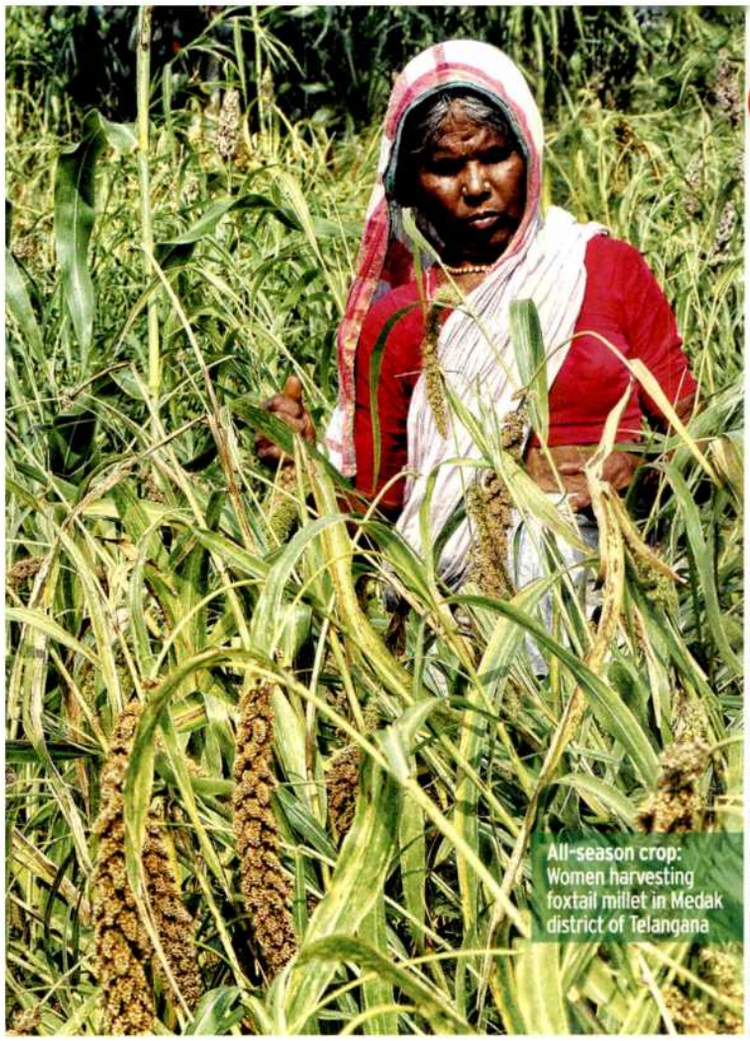

Source: Agricultural Census, Ministry of Agriculture

Maiyas Foods, says that with Indians becoming health-conscious, many have started emulating Gowda's diet.

Quick to spot the opportunity, Maiyas now sells a ready-to-eat version of *mudde saru*, and even exports the product to the US, Australia, Singapore and Malaysia. It also offers other *ragi*-based products and now intends to launch millet-based *Ambli* (a breakfast drink) and *Huri Hittu* (fried millet powder).

MTR Foods has also been agile in tapping the *ragi* opportunity. "We saw millet making a comeback in 2012 when we launched our range of multigrain breakfast mixes that are a blend of power grains like oats, *ragi*, and *jowar*," says Vikram Sabherwal, Vice President - Marketing at MTR.

But it's a small innovative new company set up in



All-season crop: Women harvesting foxtail millet in Medak district of Telangana

PHOTOGRAPH BY DECCAN DEVELOPMENT SOCIETY

Interview of Prashant Parameswaran of Soulfull at businesstoday.in/soulfull-Parameswaran

the young and energetic founder and Managing Director, makes you taste a range of new millet-based products that are being developed. These include a snacky millet broth preparation in tangy flavours that intends to be an alternative to the two-minute instant noodles market.

Millet's comeback story is not restricted to the south. In Udaipur, Rajasthan, four entrepreneurs have set up *Millets of Mewar*, a restaurant that is seeking to revive the ancient millet-based dishes of the region.

Savvy multinationals, too, are boarding the millet bandwagon. PepsiCo's Quaker Oats is now available in a new multigrain variant, Quaker Oats Plus, that contains *ragi* and barley, besides oats. "The introduction of Quaker Oats Plus is a reiteration of our commitment to enhance the portfolio relevance for Quaker in India through locally relevant offerings," says Vidur Vyas, Senior Director, GNG Marketing and Beverage Innovation, PepsiCo India. Soulfull's Parameswaran is pushing his brand – launched in Bangalore – nationally as well, taking it to

2011, Kottaram Agro, that has really taken the millet story forward by giving the grain a modern makeover. Under the brand Soulfull, it sells a power breakfast of *ragi* flakes that come in three variants – chocolate, vanilla and strawberry. The last bastion of resistance – urbanites used to a toast and cereal breakfast – have a millet option now. Visit the company's factory and Prashant Parameswaran,

Chennai, Hyderabad, Mumbai, Pune, Delhi and Kolkata.

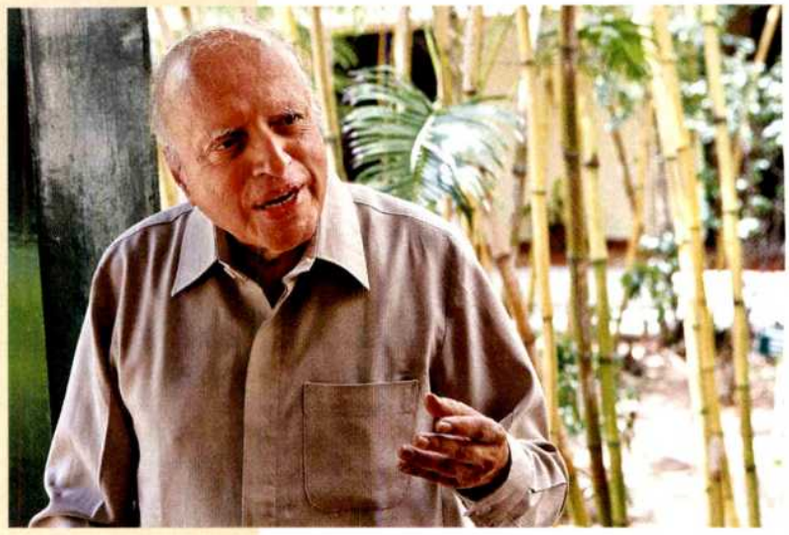
"New product launches containing millet accounted for slightly under two per cent of food launches between 2010 and 2014. In absolute terms, the number of such launches increased by six times during that period. Millet has, in fact, nearly caught up with oats in terms of their growing presence across food categories," says Ranjana

INTERVIEW

Prof M.S. Swaminathan

# "THE SEEDS HAVE BEEN SOWN FOR A MILLET REVOLUTION"

*The father of India's green revolution,* **M.S. SWAMINATHAN**, *is involved in the conservation and cultivation of millet. He tells* **CHITRA NARAYANAN** *why millet is important. Edited excerpts:*



JAISON G.

***Why did millet vanish from our fields?***

With market-oriented agriculture, the food basket shrunk in India and globally. As wheat, rice, corn, soybean, potato became important, the old cereals – including minor millets – lost their importance. Another reason local people gave up millet was because it required a lot of drudgery (hand pounding, threshing, etc.) on the part of women to process.

***What's leading the resurgence now?***

Globally, a major reason is climate change. These crops are less prone to damage by drought... Climate smart cereals such as millet have to be grown. The second reason is the zero hunger challenge set by UN Secretary-General Ban Ki-moon. One important component of the challenge is to revive crops which can address all three forms of malnutrition – under-nutrition, protein hunger and hidden hunger, i.e., micronutrient deficiency. Fortunately, many millets are rich in proteins and micronutrients like iron and vitamins. Third, the mechanisation and new technology improvements have helped in the easy processing of millet.

In our country, a major push for revival has been given by the National Food Security Act, 2013. For the first time, millet has been included in the food security system. That means public procurement. It will create demand. There will be a market. For farmers, monsoon and the market are important.

Thus, the seeds have been sown for a millet revolution. Today, people are also much more nutrition conscious as a result of which the consumption base is getting widened.

***So, are we seeing the crop area getting increased?***

During drought, the area under production of millet goes up.

***But is the income from millet improving for farmers?***

Hereafter, it will get better as the breakfast market for millet is picking up. Also, the Agricultural Prices Commission has announced a minimum support price for millet. ◆

Sundaresan, food and drink analyst with Mintel, a market research firm. Mintel's finding is that bakery products (this includes flour, bread, biscuits and baked items) accounted for 60 per cent of all millet-based launches, while snacks accounted for 15 per cent and breakfast cereals 13 per cent.

After years of being ignored and labelled as food fit only for animals, millet is back. Right now, what we are seeing is a resurgence from all sides – consumption, manufacturing side and production. A major impetus has been the National Food Security Act of 2013, which has added millet to the basket of foods that will be distributed through the public distribution system. Another big push factor is the high Minimum Support Price (MSP) fixed for millet by the Commission for Agricultural Costs and Prices – ₹1,550 per quintal for *ragi*, ₹1,530 for *jowar* and ₹1250 for *bajra*. It's only ₹1,360 for paddy and ₹ 1450 for wheat. It is a big inducement for farmers to grow millet. "Today a new era has begun for millet," says noted agriculture scientist and father of India's green revolution, Professor M.S. Swaminathan.

## The Fall and Rise

Back in 1956, millet accounted for 40 per cent of all cereal cultivated area. Over the last 50 years, the area under the crop has shrunk by over 44 per cent (see *When Rice and Wheat Pushed Out Millet*). Millet accounts for only 11 per cent of India's gross cropped area. Even now, while the decline has been arrested, the process of reclaiming fields is slow.

Full interview with M.S. Swaminathan at businesstoday.in/millets-swaminathan

According to Swaminathan, there are three important reasons for the revival of interest in millet. The most important being climate change. Millet is a hardy, climate-smart grain that can grow in drought-like conditions unlike rice and wheat. The realisation has come not just in India, but globally too. "Vanishing crops have to be saved. Climate-smart cereals like millets have to be grown," he says.

Also, millet can provide nutrition security as it is rich in calcium, minerals, iron, fibre, beta carotene. It is far superior to rice and wheat in terms of nutrition value. Finally, new technology has enabled easy processing of these coarse cereals, allowing food companies to offer this hard to digest grain in ways that would appeal to the urban consumer's fussy tastes. As MTR's Sabherwal says the consumer insight when they launched millet products was that people wanted to consume these grains but did not know in what format.

## The Millet People

What we are seeing today is no overnight trend. For over two decades, a diverse set of people and organisations have been working in their own silos advocating the cause of millets each with different goals – ranging from a nutritional focus to agricultural development. For instance, Professor Swaminathan started work on millets in 1992. The initial idea was to preserve millet germplasm as part of a biodiversity conservation project. "At one time, there were 40 to 50 types of millets grown in India. Gradually their number shrunk to four or five," he says. It prompted his institute to work on millet, starting off with a project in Kolli hills of Tamil Nadu. Gradually, the scope of the project expanded. "Now our millets project addresses the 4 Cs of agriculture – conservation, cultivation, consumption, and commerce," he says.

When the project initially started it was not an easy journey as the tribals in Kolli Hills, who traditionally grew millet, saw better opportunity in tapioca or pineapple as there was a local starch factory they could cater to. Nobody wanted to grow millet.

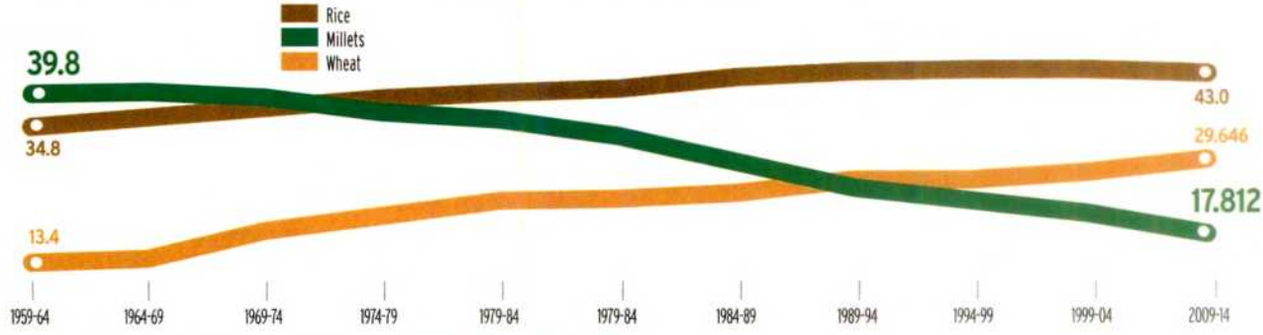
Makeover for millets: Prashant Parameswaran, MD of Kottaram Agro, displaying his company's branded millet-based nutri products at its Bangalore plant

NILOTPAL BARUAH

In Telangana, the founder of Millet Network of India (MINI), P.V. Satheesh, faced a similar struggle as he set about creating awareness for the grain. Satheesh set up the Deccan Development Society at Pasthapur in Medak district to address Dalit women's issues. He got interested in millet when he saw that these grains were inextricably linked to their general welfare. "These crops taught us that the nutrition of poor tribal communities depends on millets. They inherit bad agriculture lands and their sustenance depends on continuation of these hardy crops," says Satheesh. In contrast, rice and wheat are water guzzling and also need chemicals, pesticides, and fertile soil, all of

## WHEN RICE AND WHEAT PUSHED OUT MILLET

**Other foodgrains have gained at the expense of millet in the past 50 years**




*All figures are average of five-year data **Figures show area under cultivation in million hectares**

which are a premium. "This was our initial reason for setting up MINI," says Satheesh.

MINI today has grown into a pan-India alliance of over 65 institutions that are relentlessly pushing millet. Satheesh says more than 50,000 farmers are part of the alliance. "It is now no longer confined to the south but has spread across the country to Uttarakhand, Nagaland, Odisha," he says. Similarly, a host of other organisations are supporting millet revival projects across India.

But there are challenges galore. Despite awareness campaigns, farmers still get swayed by the market,says Swaminathan. Typically, in drought-like conditions, farmers used to switch to millet, but now they are tempted to opt for BT Cotton and soybean.

The other problem is that while the government may have laid down an MSP, the reality is that only two grains – rice and wheat – are picked up. "There are 22 items in the MSP list, but only a few are picked up," says Swaminathan. Hopefully, as more companies start adding millet to their product mix, things will look up for millet farmers.

Unique flavour: Prems Graama Bhojanam, a food joint in Chennai started by N.S. Krishnamoorthi (left), only offers rural dishes prepared from millet

JAISON G.

## The FMCG Opportunity

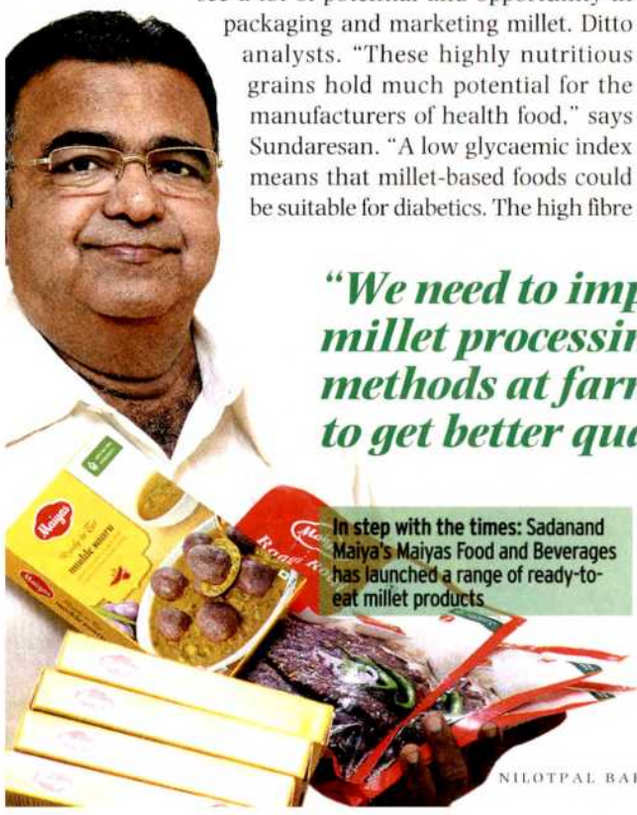
Talk to FMCG companies like ITC Foods and they see a lot of potential and opportunity in packaging and marketing millet. Ditto analysts. "These highly nutritious grains hold much potential for the manufacturers of health food," says Sundaresan. "A low glycaemic index means that millet-based foods could be suitable for diabetics. The high fibre content opens up scope for foods containing millet in weight management."

Prashant Parameswaran says he gets orders from hotel chains for his millet-based products as these are entirely gluten-free. As Sundaresan points out, "While this is still an underdeveloped claim in India, it is one of the most popular claims in the westernmarkets. This means there is export potential for products such as millet-based gluten-free pasta or breakfast cereal."

But there are challenges, too, for FMCG manufacturers. Processing is one. Maiya describes how his company had to import special equipment from Taiwan. "We need to improve millet processing methods at farm levels to get better quality," he says.

Meanwhile, Professor Swaminathan says he has written to the Food and Agriculture Organisation (FAO) of the United Nations to have a year of millet. Remember, the FAO declared 2013 the year of Quinoa, another ancient grain. Subsequently, it became a rage the world over and its price soared. Last year saw the Quinoa fad sweeping through India, too. While Quinoa undoubtedly is a superfood, as Swaminathan points out, we have our own local heroes in millet. It's time the hero takes centre stage. ◆

***"We need to improve millet processing methods at farm levels to get better quality"***



In step with the times: Sadanand Maiya's Maiyas Food and Beverages has launched a range of ready-to-eat millet products

NILOTPAL BARUAH

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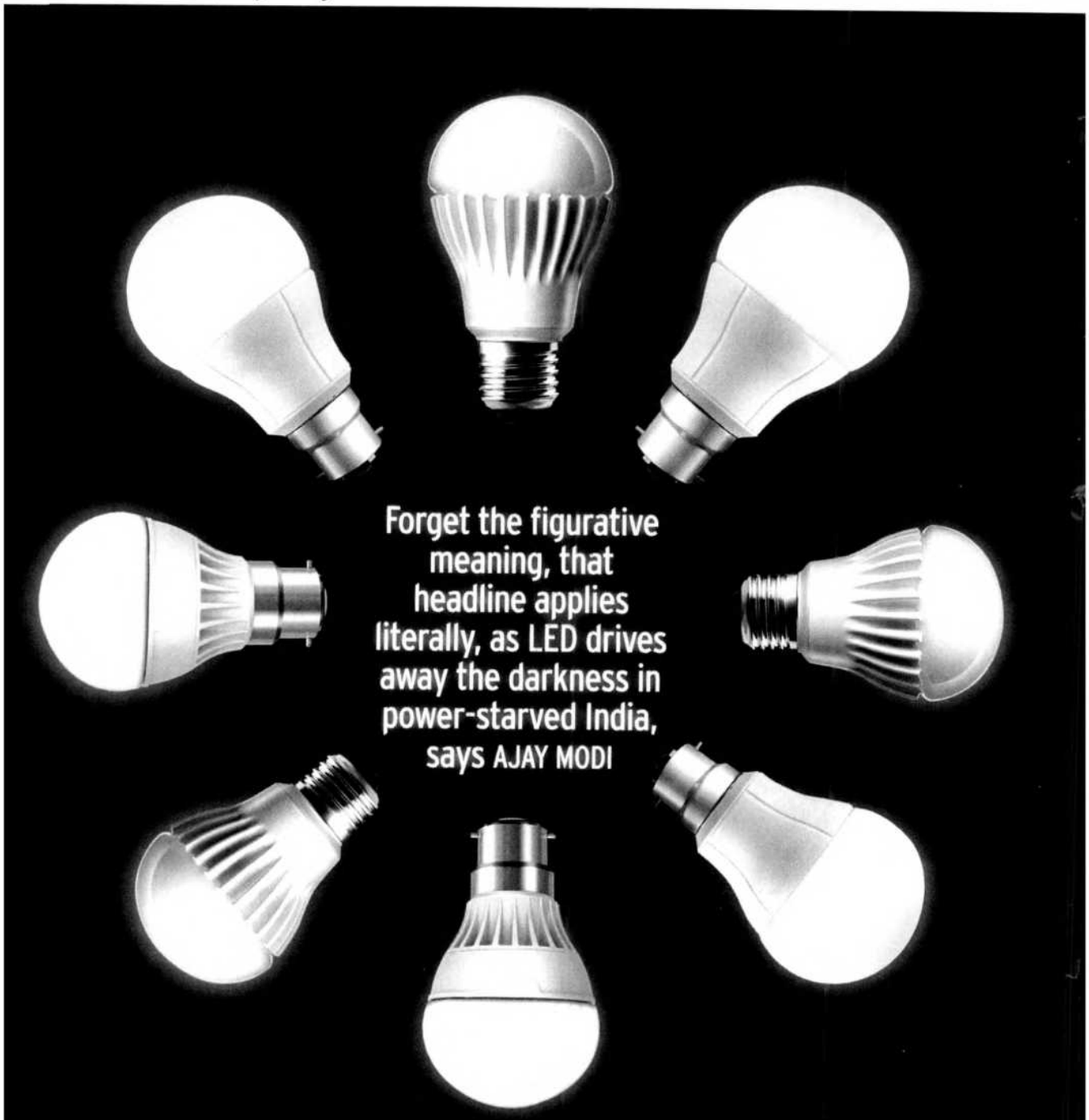


Forget the figurative meaning, that headline applies literally, as LED drives away the darkness in power-starved India, says AJAY MODI

# LIGHT AT THE END OF THE TUNNEL

Ever wondered how a type of light bulb suddenly became sexy? Why the new bankable star Ranbir Kapoor, durable old one Akshay Kumar, and the thinking woman's sex symbol Irrfan Khan are appearing in TV commercials asking you to buy LED bulbs?

The short answer is that they are being paid good money to do so. The long one is that companies are paying them that money because they see a pot of gold at the end of the rainbow (or, shall we say the bright white light?).

The Electric Lamp and Component Manufacturers Association of India (ELCOMA), the lighting industry body, has forecast that LED bulbs will comprise 60 per cent of the lighting industry's turnover in five years, by when it would have grown two-and-a-half-times to ₹38,000 crore a year.

The acronym LED expands to light-emitting diode. In Andhra Pradesh, though, it translates into a 63 per cent reduction in peak-time power deficit.

The power situation in the state was becoming precarious. With gas from Reliance Industries' wells in the Krishna-Godavari river basin drying up, several of its power plants have been running at a rate much lower than their capacity. The state has a peak-time power deficit of 397 MW, or 5.6 per cent, during the April-February period of last fiscal, according to the Central Electricity Authority.

Chief Minister N. Chandrababu Naidu, who has a reputation for being tech-savvy, was clutching at straws when he found the solution in LED. Within six months of his launching the Efficient Lighting Programme in October last year – it could just as well have been called the LED lighting programme – Andhra's need for power fell by 250 MW, or 3.5 per cent.

This is just the beginning. Once fully implemented, which it should be by March 2016, Naidu's LED drive is expected to reduce his state's need for power by 1,300 MW, or 18 per cent. If he had to produce this power, instead of reducing the need for it, the cost would have come to ₹8,000 crore, not counting the time it would take to build them.

Prime Minister Narendra Modi, who launched a scheme for Delhi to replace incandescent bulbs, called LED bulbs "prakash path" – the path to light. It was more economical to conserve power, he said, than to produce it.

Leading lighting industry players, including Philips, Havells, Bajaj Electricals and Crompton Greaves, are working overtime to carve out the largest possible slice of the pie for themselves. In the process, LED prices have been falling. In a matter of just 12 months, the lowest quoted price for bulk supply of a seven-watt LED bulb has come down from ₹310 to ₹104, helped along by a fall in the price of imported LED chips.

But more than the opportunity for companies, there is the opportunity for the country. Lighting consumes 19 per cent of the electricity consumed in India. The global average is just 13 per cent. A large-scale LED adoption will bring the figure for India down to the global average, cutting the country's electricity need significantly. "We are looking at savings of nearly 100 billion units of power through the use of LED lights, translating into $7 billion annually," Power Minister Piyush Goyal said at a public event in New Delhi in March. LED bulbs, he said, would replace incandescent ones – the round, yellow ones that protruded out of electrical points before CFL became fashionable – in three years.

LED uses half the electricity used by CFL, and just a tenth of what an incandescent consumes. The lighting industry has voluntarily decided to suspend

SHEKHAR GHOSH

**"On an average, there is a 50 per cent domestic value addition in LED"**

SUNIL SIKKA/ President/ Havells

## BIG BENEFITS: How LEDs compare versus CFLs and incandescent bulbs

| | INCANDESCENT BULB | CFL | LED |
|---|---|---|---|
| Life Span (in hours) | 1,500 | 10,000 | 50,000 |
| Wattage | 60 | 14 | 6 |
| Power consumed per hour (in kilowatt) | 0.06 | 0.014 | 0.006 |
| Usage cost/hour (at ₹6/per kilowatt hour) | 0.36 | 0.084 | 0.036 |
| Bulb cost | ₹10 | ₹120 | ₹300 |

Source: Industry

production of the 100-watt incandescent bulb. For the rest, it will keep reducing the wattage till it reaches 25. "It will take some time to shift to LED unless there is a ban," says Sumit Joshi, Head (Marketing) at Philips, which is a supplier in Andhra.

But a complete ban may not be received very well by buyers because, for all its faults, an incandescent costs just about ₹10 or so. CFL, though, is in rough weather.

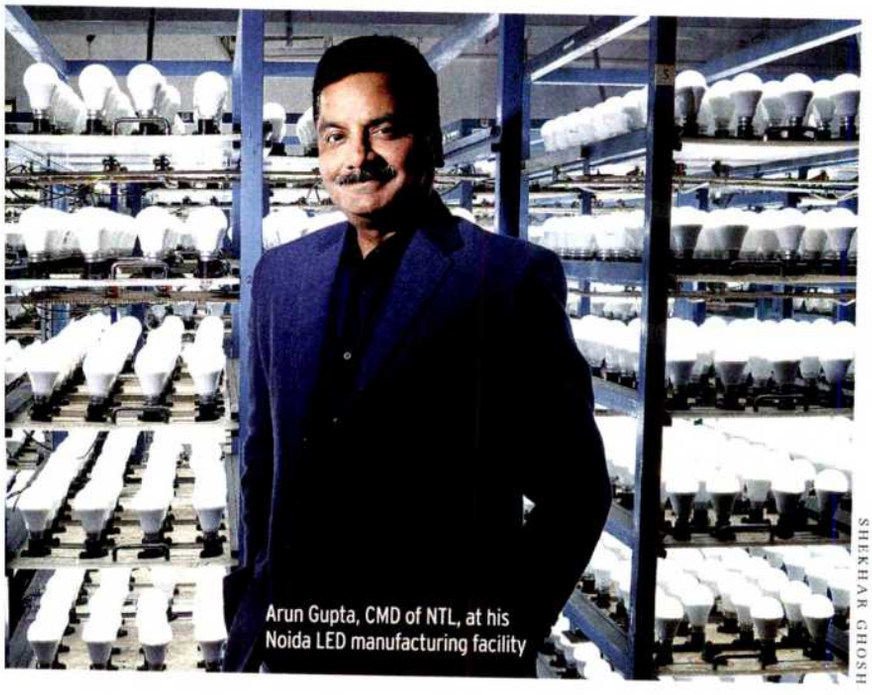
With falling LED prices, CFL scores low on the price as well as electricity consumption. No wonder it seems to be going the same way as compact discs for watching movies. They shone for a brief period, replacing something that had lasted decades – incandescent bulbs and cassettes – only to be overtaken by the march of technology. What DVDs and blue ray did to CDs, LED might do to CFL.

"Low-quality CFLs (read cheap) made the concept popular but eventually lost out on durability, which is key for Indians. Restrictions were imposed on CFL imports and that is how CFL manufacturing picked up in India," says Sunil Sikka, President, Havells. His corporate office on the Noida-Greater Noida Expressway switched to LED two years ago.

India is now the second-biggest CFL manufacturer after China. But the industry expects many of those factory lines to start churning out LED. "Many say there will be no CFL two to three years from now," says Joshi, whose company produces every third CFL sold in the country.

LED manufacturers continue to rely on imports for chips since its production costs a lot and the technology is patented. There is, however, some work done on them in India to make them suitable for use. "On an average, there is a 50 per cent domestic value addition in LED," says Sikka.

All told, there is sufficient conviction in the government – the Centre as well as states – to plump for LED. Four central government power utilities have joined hands to set up Energy Efficiency Services Limited (EESL). It has been roped in by Andhra Pradesh to procure and distribute LED bulbs to households in partnership with the state's power distribution companies. It has also installed LED street lamps in Vishakhapatnam through a deal



Arun Gupta, CMD of NTL, at his Noida LED manufacturing facility

SHEKHAR GHOSH

with the Greater Vishakhapatnam Municipal Corporation. When Cyclone Hudhud destroyed 70,000 street lamps last October, they quickly installed LED in their place.

For Andhra, EESL has bought LED bulbs through a tender at ₹200 apiece. It distributed two to each household in select districts for ₹10 each and in exchange for two incandescent bulbs of 60 watts, which are crushed. Each replacement reduces the load by 53 watt. It has already distributed four million LED bulbs in just three districts.

EESL will get back the ₹80 crore it is spending over five years. "The discoms (distribution companies) will repay us from their savings," says Saurabh Kumar, EESL's Managing Director. Discoms will pump in less electricity to meet the peak-hour demand of households. The power thus saved can be sold to commercial and industrial establishments, which are charged at higher rates.

Lower household demand also means lower transmission and distribution losses. The net gain to discoms could be ₹75 crore over five years, after paying EESL back.

There is huge demand for LED from hospitals and offices, which need a lot of lighting and stand to recover quickly their cost of moving to LED. "Institutions that use lighting 24 hours a day, seven days a week, will recover in nine months compared to 24 months for a household," says Rakesh Zutshi, Managing Director of Halonix, a lights maker backed by private equity firm Actis.

To be sure, EESL is not doing charity. Says Kumar: "We earn 15.5 per cent return on equity. There is no subsidy involved and this model can be replicated across the nation."

That it is – slowly, but surely. Delhi, following in Andhra's footsteps, has launched a scheme that has EESL partnering with its three discoms – BSES Yamuna, BSES Rajdhani and Tata Power – but with a twist. Unlike Andhra, here you need to pay for the LEDs you get, though the payment is staggered and you don't need to give anything in exchange.

The average price for the national capital, arrived through tenders, works out to ₹104 apiece. Buyers pay ₹10 upfront for a bulb, while the remaining ₹94 will be recovered in nine-monthly instalments of ₹10, and ₹4 in the tenth month.

That should not pinch since a household is estimated to save ₹162 per LED every year in electricity bill. It also gets a free replacement up to three years.

Delhi will soon switch to LED for lighting up its streets, an important aspect for a city not known for ensuring safety of its women. The city has 500,000 street lights. The municipal corporation will not have to pay a penny upfront, it will repay EESL over seven years. EESL plans to replace nine million street lights in 100 cities.

An LED drive is going on in Tripura, Manipur, Nagaland and Meghalaya. Other states, too, are launching their own programmes to replace incandescent bulbs, but they are in early stages and details are still filtering through. However, the LED story is not without its dark patches.

Though prices in bulk order through tenders have crashed to ₹104 apiece, you won't get anything in a shop for less than ₹300 to ₹400. Some also complain about the rapid tenders floated by EESL.

"EESL tenders have brought the industry to a very competitive zone. People are working on wafer-thin margins and just covering costs. But it is good that the market is developing," says Arun Gupta, CMD of Noida-based NTL Electronics.

"These tenders are coming fast and domestic capacity is not there. Some players are procuring from China and supplying it in the tender," says Joshi of Philips.

## TAKING THE LEAD: States that have placed orders for LED

| STATE | DOMESTIC LED BULBS | LED STREET LIGHTS |
|---|---|---|
| Andhra Pradesh | 25 million (14 million) | 600,000 (200,000) |
| Rajasthan | 20 million (2 million) | 15,00,000 |
| Uttar Pradesh | 50 million (3 million) | (10,000) |
| Maharashtra | 50 million | 15,00,000 |

Procurement for numbers is brackets already done. Rest to be tendered Source: EESL

Agrees Zutshi of Halonix: "Traditional players have been slow to move to LED since whatever they were producing was getting sold. Those with a global presence were quick to react." Indian units of multinationals Philips and Osram have been more active.

EESL financed all the lights and the municipal corporation will repay it from the estimated 50 per cent reduction in power bill. The maintenance cost is also low for LED street lights compared to yellow mercury lamps. LED lamp costs thrice compared to the ₹3,000 for a mercury street lamp which normally lasts only 18 months compared to 3-5 years for LED lamps.

Of the estimated 1.15 billion bulb points in the country, incandescent bulbs shine on 800 million and CFLs on 350 million. Is that the challenge or the opportunity? Tenders, margins, and prices will tell. ◆

*@ajaymodibt*

**Ahead of the curve:** MoveInSync co-founder and CEO Deepesh Agarwal with employees in Bangalore

NILOTPAL BARUAH

# MAKING THE RIGHT MOVES

**A band of three entrepreneurs is trying to cash in on the growing demand for employee transportation services.** By E. KUMAR SHARMA

Six years ago, a trio from IIT (BHU), Varanasi spotted a business opportunity in the traffic snarls of India's bustling cities. Deepesh Agarwal, Akash Maheshwari and Anuvrata Arora joined forces to set up MoveInSync, a carpool service company, in June 2009. The company launched a website 'RideInSync' to provide car-sharing options to customers through a tie up with a third party cab service provider.

The three entrepreneurs – all in their early 30s then – made little progress with their business plans until April 2010 when a chance meeting with a senior Amazon official in Hyderabad changed their fortunes. Agarwal, co-

founder and CEO of the company, had offered carpooling facilities to Amazon to ferry its employees to and fro from the airport. But the Amazon official seemed more concerned about finding answers to another pressing employee transportation problem. The company was transporting its 2,000 employees to office and back home daily, translating into some 1,000 trips a day. It needed to make this process more efficient and convenient for staff and also cut costs. The official asked Agarwal if he could find a way out.

This clearly meant a bigger deal for MoveInSync than what its co-founders had in mind. After all, it was not Amazon alone. There would be scores of other companies with similar needs, thought Agarwal, standing outside the Amazon office on the Hi-Tec City road in Cyberabad, the suburb of Hyderabad that houses many IT and BPO companies. "I felt then there would be at least 100 other companies that would need this," says Agarwal. So, the co-founders brainstormed and realised that they needed to alter their business model. They changed it from business-to-consumer (B2C) to business-to-business (B2B) model – from pure share of revenue though carpooling service, they became solution providers to enterprises and it clicked.

"MoveInSync's platform now has 75,000 employees across 20 organisations and 10 cities... Most of our clients are Fortune 500 companies," says Agarwal, who incidentally is the only co-founder who has been to a B-school. He graduated from the ISB in 2009. His mentor Arun Pereira, Clinical Associate Professor of Management Education, and Executive Director, Centre for Teaching, Learning, and Case Development at the ISB, asserts that he always felt it important to constantly remind his students about a basic principle that most established business leaders know. "It is not the B plan [business plan] that matters but the Plan B that is more likely to work and lead you to success." That is exactly what happened at MoveInSync. The reason Plan B worked this time, according to Pereira, was not just because there was a clear economic value here for the customer but also because of the team. "MoveInSync's founding team was willing to adapt and change in response to data from the marketplace. They quickly moved away from the original plan that focused on offering a ride sharing or carpooling to a business model that leveraged technology to plug inefficiencies in employee transportation services offered by large companies," he says.

Agrees Krishna Tanuku, former executive director of the Wadhwani Centre for Entrepreneurship Development at the ISB, where MoveInSync was incubated. "What I saw in him was his adaptability and ability to constantly align his execution plan with ground realities."

Indeed, the Employee Transportation Solution (ETS) that the company provides is an end-to-end solution for staff transportation. It includes routing, employee cab usage records, live vehicle tracking, automated billing and women security features. The transport manager has complete control over the operations in real time. The ETS consists of two parts: a touch-screen device installed in the cab, and a reliable server hosted in the cloud. Now, this is not what most of the 1,500-odd GPS-enabled cab providers – potential competition to MoveInSync – offer. It is the reason why companies (customers) and investors are betting on the company.

It posted revenues of ₹4.74 crore in 2013/14 and has sharply pared losses over the last three years. It is hoping to double the user base from 75,000 to 1.5 lakh in the next one year and achieve a cash breakeven. So far, MoveInSync has been able to raise around $4 million from three venture capital (VC) investors – Inventus Capital, Saama Capital and Qualcomm Ventures.

Agarwal feels that the company should be able to grow three to four times each year. In fact, he hopes to become close to a ₹100-crore company in another three years. "Over time, I find Deepesh much more confident and sure of his idea and that is seen by the fact that VCs have begun to fund him. From an amateur entrepreneur he has become a confident businessman," says Pereira.

Rutvik Doshi, Director, Inventus (India) Advisors, says what attracted them the most to MoveInSync was the leadership team and how they had grown it during

## MoveInSync Quick Facts

**FOUNDED:** June 2009

**FOUNDERS:** Deepesh Agarwal, Akash Maheshwari and Anuvrata Arora, all IIT (BHU) 1998 batch

**MENTOR:** Prof Arun Pereira, ISB

**EMPLOYEES:** 80

**FUNDING:** Around $4 million by Inventus Capital, Saama Capital and Qualcomm Ventures

**AREA OF OPERATION:** Technology for automation of enterprise transportation

**USP:** Help make employee transportation safer and efficient through the use of real-time cab and passenger information

**FINANCIALS:** Revenue of ₹4.74 crore in 2013/14. Hopes to break even in 2015/16

**CUSTOMERS:** MoveInSync's platform has 75,000 employees

See interview with Deepesh Agarwal at
businesstoday.in/moveinsync-agarwal

the bootstrap phase. "It gave us a lot of confidence that this was a team worth backing," he says. In addition, and perhaps equally importantly, by leveraging technology they were moving in tune with the emerging trends as logistics or employee transportation would increasingly depend on the digital medium. Also, the company is operating in a space that appears to have a huge market. Agarwal says, quoting NASSCOM estimates, that about 35 lakh people daily need to travel to and back from work in the IT and BPO sector alone, his key target segment at the moment. The numbers would be much larger, he says, if one were to also look at other sectors that require staff transportation services, such as manufacturing, telecom and media.

## The Competition

There are a few other players in the employee transportation in the country though they don't have the scale and size of MoveInSync yet. For instance, in Bangalore alone, where MoveInSync is also headquartered, there is another player – Cubito, run and operated by Neocube Technology Solutions. Pranay Agrawal, co-founder of the company, says that in January this year they got a ₹1 crore funding from Sol Primero, an early-stage investment firm. It was just about five months after it hit the market with its solution. Cubito's Employee Transportation Automation Tool compiles all employee information, geo-codes the data and allocates fleet, avoiding unnecessary paperwork and reducing the time spent in enabling to a matter of seconds. "While MoveInSync has been the first mover in this space and been around for the last three to four years, this space can accommodate more players with market for all," says Cubito's Agrawal. The company, which currently has three customers, hopes to end 2015/16 with revenues of around $1 million (₹6 crore). Also, Cubito intends to go beyond employee transportation and look at transport optimisation solution for the logistics market as a whole, which could be a huge addressable market.

MoveInSync's Agarwal is clearly aware of the need to be ready for competition but feels they are on the right track. "India currently is a $5-billion market for enterprise shared transport, of which MoveInSync can surely become an important player," he says. This total addressable market, he says, includes cabs and buses transporting employees to work and back daily. "If the company keeps on innovating, it could retain its lead," sums up Doshi of Inventus (India) Advisors. ◆

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Chairman, LBSIM, Delhi

**Sitting pretty:** China Lodging Group's founder & Chairman Ji Qi

China Lodging Group's (CLG) 2014 revenue grew 19.1 per cent to Chinese yuan (CNY) 4.965 billion ($800 million). It opened 570 hotels in 2014 (up 40 per cent from 1,425 at the end of 2013), set up a full spectrum of brands, and built more new hotels in Tier-II and Tier-III cities. The brand spectrum included the newly-launched resort brand Manxin, upscale brand Joya, mid-scale brands Ji and Starway, and economy brands HanTing and Hi Inn, which together covered a price range of CNY 100 to CNY 1,000 per room per night.

Nevertheless, Ji Qi, CLG's Founder and Chairman, faced mounting challenges. Amidst the company's transformation from an economy hotel chain operator to a group serving all market segments, and from a start-up to an enterprise supporting stable and sustained growth, how could he ensure that the company's HR, corporate culture and organisational competencies kept up with the continued growth of the business? Plus, how could he shake up the upper-middle and top-end hotel segments, using his experience in the middle and low-end segments?

# MR JI'S HARD CLIMB UP CHINA'S HOTEL PYRAMID


## EXECUTIVE SUMMARY

*Having started with economy hotels in 2005, Ji Qi, Founder of the China Lodging Group, gradually brought in midscale and upscale properties into his portfolio. Growth has been phenomenal, and targets going forward are equally so. But challenges abound. Apart from organisational challenges such as maintaining corporate culture and competencies, and talent acquisition, there is also stiff competition from both Chinese and international hotel groups. How can Mr Ji leverage his group's resources and experience accumulated from the middle and low-end segments to shake up the upper-middle and top-end – and even luxury hotel segments?*



**By S. RAMAKRISHNA VELAMURI and DONG LIANG**


## The Early Story

Ji founded CLG in 2005 as HanTing Hotel Group. Its HanTing Express hotels targeted the economy segment – rooms were typically priced at CNY150 to CNY300 a night, offered services including printing, Internet access, and a 'zero-second checkout' service to enable customers with a membership card to leave the hotel without going through the front desk or waiting for staff to check the room.

In 2007, CLG (the name was changed in 2012) opened Ji Hotel, a mid-tier brand that targeted mid-level corporate managers and SME owners. Rooms were typically priced at CNY250 to CNY500 a night, and its quality matched that of three- to four-star hotels. In 2008, CLG launched Hi Inn (renamed Hi Hotel in 2012) targeted at college students and backpackers with rooms priced at CNY100 to CNY200.

CLG adopted two models for its hotels: leased and manachised. The company owned and operated the leased hotels and bore all the associated expenses. These were located in bustling hubs of cities, in properties that were leased for 10 to 15 years, and subject to a three to five per cent increase in rent every three to five years.

The "manachised" hotels referred to franchisees either leasing or owning their hotels, and investing in their renovation according to CLG standards. For these hotels, CLG

charged a lump-sum franchise fee of CNY3,000 per room per year and five per cent of the annual revenues. The franchisee was required to pay the salary of the hotel manager, who was appointed by CLG to run operations and ensure compliance with CLG's standards. CLG would share with franchised hotels its central reservation system, market network, quality control system, and operations management experience. It took six months on average for a new leased or manachised hotel to achieve a stable presence in the market.

In 2012, most Ji and Hi Inn hotels were leased and operated by the company, and franchised hotels accounted for a small percentage. The same year CLG underwent several significant changes. Ji, after leaving the position of CEO for three years, reassumed the role to accelerate expansion. "We believe the budget hotel sector will still grow very fast, and it will remain the largest sector. That's why we will continue expanding in this sector," said Ji. To speed up the pace, CLG relied more on franchisees. In 2014, leased-and-operated hotels represented 31 per cent of its portfolio, compared to 73.3 per cent in 2009.

## Entering High-end Segments

The decision to move into the high-end segments was backed by several reasons. First, CLG found it hard to offset the rising cost of manpower and rent. It also signed more long-term lease agreements to control costs. Second, it believed rising consumption in China would lead to more consumer spend on accommodation during vacations, leading the mid-range and luxury segments to high growth. In the spring of 2012, CLG bought Starway, another mid-tier brand running 120 hotels in China. Over the next two years, the number was consolidated to 46 (those not willing to adopt the franchise model were let go), and CLG planned to increase the number to 70 in 2014 by attracting new franchisees.

In this way, CLG operated two mid-tier brands, each with distinctive features. Different from Ji Hotels, Starway hotels were non-standardised. "Compared to the highly standardised Ji Hotel, Starway is a variety-rich brand. That can be good news for our potential partners who could not join in as they could not renovate their existing facilities to the fullest standard of Ji," noted Ji. To dispel any assumptions that the Ji Hotel was just an upgraded version of HanTing Express, CLG contracted top Japanese and Taiwanese designers to redesign Ji Hotel rooms and invested in improving hygiene and food services. The investment cost per room rose 50 per cent with respect to the HanTing brand to CNY120,000.

**Ji Qi has set ambitious objectives: increase the number of hotels to 2,000 to 2,500 by 2016 and 4,000 to 5,000 by 2021**

In 2013, CLG unveiled its first branded upscale hotel, Joya, in Wuhan. In early 2014, CLG added another brand to its full-range portfolio by opening its resort hotel Manxin in Lijiang. At the end of 2014, CLG had 1,995 hotels – 1,648 HanTing hotels, 158 Hi Inn hotels, 13 Elan hotels, 117 Ji hotels, 55 Starway hotels, three Joya hotels and one Manxin hotel – across China. Many new additions were located in Tier-II and Tier-III cities. The CLG loyalty programme had over 15 million members, who contributed more than 80 per cent of the occupancy rate. CLG also developed a central reservation system through which it sold 90 per cent of room nights.

Within four or five years, CLG forecasts it would establish itself in the upscale and luxury segments. "CLG's future revenue by its upscale, midscale and economy hotels would respectively account for 10, 30 and 60 per cent of the total," said Ji. "About 30 to 40 per cent of its total profits would be contributed by midscale and upscale hotels."

However, some industry insiders cautioned that the rapid expansion may lead to quantitative and qualitative imbalances.

## The Competitive Landscape

The China hotel market is like a pyramid. At the tip are luxury hotels, the fewest in number. There are a number of mid-range hotels, and a wider base of budget hotels. Players compete in this fragmented industry primarily based on location, product, service and convenience.

According to a Deloitte study, branded budget hotels, including Home Inn (founded in 2002), 7 Days Inn (2005), CLG (2005) and JinJiang Inn (1996), among others, collectively represented just six per cent of the total hotel rooms in China in 2010. To consolidate the standalone budget hotels would take time, and the diversity of market conditions across China made the consolidation even harder. The fragmentation in the mid-tier hotel segment was also obvious. In 2010, branded midscale hotel chains made up only eight per cent of the total hotel rooms.

At end-2013, CLG's HanTing was the industry leader in terms of occupancy rate and RevPAR (revenue per available room, a key performance metric in the hotel industry), with total portfolio RevPAR reaching CNY163 and with occupancy rate of 95.6 per cent. The RevPAR and occupancy rate of Home Inn and JinJiang Inn during the same period were, respectively, CNY142 and 86.1 per cent, and CNY147 and 83.1 per cent. (The figures of 7 Days were CNY132 and 81.3 per cent in 2012).

The Chinese hotel market saw a major change in 2012. In the face of upgraded local consumption and soaring manpower costs and rent, Home Inn, HanTing and 7 Days began to implement a multi-brand strategy and shifted their focus to the mid-tier segment, which tended to have higher gross margins and was less concentrated.

Home Inn Hotel Group acquired Top Star Hotel in 2007 and Motel 168 in 2011, and launched the Yitel brand in 2008 to address the mid-tier and premium markets. Actions like these helped Home Inn Hotel Group retain its position as the largest economy hotel chain in China in 2013, operating 1,802 Home Inns, four Yitels, and 378 Motel 168 hotels.

Also, 7 Days Group moved onto the fast track of growth with its single-brand strategy and low-threshold membership programme. After listing on the NYSE in 2009, 7 Days accelerated its business expansion largely by opening more franchised hotels; it already had 1,425 hotels in operation in 2013. It chose to delist from the NYSE in 2013.

CLG's major competitors in the upscale (above CNY500 per room/night) segment were foreign brands. Many international chains unfurled aggressive plans in 2012. For example, Starwood planned to double its hotel count to around 400 and open 30 new hotels in the Asia Pacific region in 2014. Marriott International planned to open 30 new hotels across China, adding to its 58 hotels. Accor, too, planned to increase the number of its hotels in China in 2013. Occupying 15 per cent of the branded upscale hotel segment in greater China, InterContinental Hotels Group had nearly 170 hotels in the pipeline in 2012, close to the total number of hotels it had opened in China in the previous three decades, and planned to increase the number of hotels to 300 in 2017. Given the relative maturity of the upscale hotel markets in Beijing, Shanghai and Guangzhou, it was estimated that upscale hotels would expand more in Tier-II and Tier-III cities than in the first-tier coastal cities in the coming three years.

## Challenges for CLG

Ji set ambitious objectives for an accelerated business expansion: increase the number of hotels to 2,000 to 2,500 by 2016 and 4,000 to 5,000 by 2021. "By 2026, when our third five-year plan comes to an end, we will have become a world-famous hotel group, and we may acquire other international hotel groups to support CLG's rapid growth," said Ji. Given its pace of expansion, CLG faced the immense challenge of creating a talent pipeline to expand the number of its frontline employees and mid-level managers.

Facing competition from the numerous standalone hotels in the mid-tier segment, CLG's COO Xie Yunhang believed the company had advantages in marketing and sales resources, central reservation system, and membership program. But he also admitted that his competitors had better locations, or may have invested more heavily in their properties. CLG might also face bottlenecks in talent acquisition. "One Ji hotel usually has 200 rooms more than a HanTing hotel, and the investment of one Ji hotel can be seven times that of a HanTing hotel," said Xie. "Thus, the manager of a HanTing cannot run a Ji hotel."

Thus, an even bigger challenge for CLG was whether it could leverage its resources and experience accumulated in the low- and mid-tier segments to gain an advantage in the mid- and top-end segments. ◆

*S. Ramakrishna Velamuri is Professor of Entrepreneurship, and Dong Liang is Case Writer at China Europe International Business School (CEIBS)*

*What lessons can we learn from CLG's expansion? Post your comments at businesstoday.in/casestudy-chinalodging*

*The best response will win a Harvard Business Press Pocket Mentor. Previous case studies are at businesstoday.in/casestudy*

## CLG must first find its bearings in the luxury segment before pushing for aggressive growth

With a little over 35 years of history, China's hotel industry has experienced meteoric growth through the past 15 years. This is likely to continue for the foreseeable future, allowing both the domestic and global players to further capitalise through expansion and consolidation.

Unlike in India, where the hotel industry has a long history and domestic companies dominate the market in all segments, including luxury and high-end, the luxury hotel segment in China is dominated by global brands. The budget hotel brands in India are more comparable to the midscale brands in China as they both offer limited luxury and decent services for reasonable prices while competing with the unbranded players in this segment, which is highly fragmented in both countries. But whereas in India the low-end of the lodging segment is totally unbranded and occupied mostly by individually owned hotels with low pricing as their unique selling point, the budget segment in China is dominated by six domestic chains with a total market share of more than 70 per cent.

VIJAY KUMAR NADIPINENI

Property Director, DongDu International Leisure, Shanghai

"There is limited difference between budget hotels and midscale hotels. The midscale hotels have better facilities, interiors and are in better locations"

While the international hotel chains, with huge investment capability, management expertise supported by readily recognised brands, were able to establish themselves and grow in the high-end and luxury segments, they continue to depend on foreign talent, mostly for the senior management and partly for the middle management for their hotels across China. High expatriate staff turnover and rapid growth in this segment have ensured that the shortage of qualified and experienced professionals prevailed through the growth. On the other hand, the budget segment has seen explosive growth of domestic players, who have better understanding of the Chinese market and operate with lower costs compared to their global counterparts. But as the hotel operations management in the budget segment is limited to rooms, domestic brands have accumulated little experience in terms of luxury food and beverage offerings or other crucial five-star services.

There is limited difference between budget hotels and midscale hotels. The midscale hotels have better facilities, interiors and are in better locations. The key differentiating factor is the scale of the operation, but not the type. For CLG to face the challenge of a possible talent shortage, it is important to focus on people development as well as retention. Given the common operational factors, developing people at HanTing hotels for the mid-scale hotel Ji might not be as big a challenge. However, it will be detrimental to depend on the same talent pool to achieve CLG's aspirations for the luxury segment.

The other resources and experience accumulated by CLG in the budget segment – IT systems, centralised reservations, cost control and expertise of running multiple lodging operations – are applicable to the mid-tier segment. When it comes to the luxury and upscale hotels, the type and detail of the operations would be at a different level, requiring not only management expertise from the same segment but also certain frontline experience that is only readily available if recruited from abroad. And this option would not be viable growing at a rapid pace while competing with global brands that are well adapting to economical ways in China.

While the plan to accelerate expansion in the midscale segment is well within CLG's capabilities, in the luxury segment where brand image is crucial, it is necessary for CLG to find its bearings, before pushing for aggressive growth.

## CLG must strive to become an aspirational brand, develop top leadership and innovate its business model

China Lodging Group (CLG) has three big opportunity areas – aspirational branding and positioning; institutionalising talent and leadership culture; and business model innovation for sustained growth.

**Aspirational branding and positioning:** The sustainability challenge for CLG is how to become an aspirational model versus an efficiency machine. The group's genetics lie in functionality and it has to now transform its thinking into an aspirational brand and services architecture. It may do well to distinctively nurture the upscale and resorts business as it needs a different set of competencies and thinking from the midscale and economy segments. This is because the former is inspired by lifestyle resonance while in the latter price and value influence choice. It will be interesting if such positioning is also able to engender national 'pride' in its target segment.

CLG may also want to consider hoisting off its loyalty and branding business to not only focus intellectual capital but also leverage its huge database, customer connect and national footprint. It will need to engage with external partners to deliver on design, service architecture and brand positioning elements to insulate the new upscale brands from its economy culture. Its anchor brands have appealed to the value-seeking Maslow; the new brands will need to resonate not only with its new, upwardly mobile, consumer market but also appeal to the higher individual and societal Maslow that international brands have invested decades in decoding.

**Institutionalising talent and leadership culture:** The business needs to attract, develop and retain top talent in view of the fast-expanding marketplace that will be starved for top talent. The talent needs to be exposed to not only contemporary industry practices but also be innovative in thinking and be able to interpret and execute CLG's ambitious business plan. Ji Qi should invest personal time in leadership development to help accelerate the business. He needs half-a-dozen Ji Qis to meet his global aspirations by 2026.

CLG may need to supplement its core team with international leisure and upscale talent to define the business model differently from the midscale and economy segments. The group seems to have over-reliance on its founder, Ji Qi. It should shift gears to institutional leadership from individual leadership.

**Business model innovation for sustained growth:** CLG should evaluate asset ownership and real estate JVs, especially for its resorts and upscale business, to match China's growing consumption climate. This will help reduce its operating expenditure from lease rentals. Negotiating 30-to-60-year leases from the present 10 to 15 years is also an arbitrage opportunity. It will also need external benchmarking and partnerships to innovate for reducing new brand capital expenditure – a 50 per cent escalation in construction cost for Ji shows a clear savings opportunity.

The group should consider taking its flags to key international markets preferred by the Chinese traveller and use its brand loyalty to garner a disproportionate share of its home market. It can also look at regional and national consolidation opportunities, like 7 Days Inn, where it will not only gain access to 7 Days' impressive loyalty database but also improve margins given the rival chain's relative market underperformance. ◆

RAHUL PANDIT

President & Executive Director, The Lemon Tree Hotel Company

"The group should consider taking its flags to key international markets preferred by the Chinese traveller and use its brand loyalty to garner a disproportionate share of its home market"

# Creating a Culture of Excellence

## Five behavioural traits need to be practised daily for excellence to take hold professionally and personally

By HARRY PAUL

It's a familiar litany: we live and work in an increasingly customer-centric economy. Most developing nations can learn a lot from the US, where the majority of the workforce and gross national product come from the performance of services rather than the production of products. An exceptional customer experience – based on the strategy and goals of the organisation – otherwise known as excellence, pays off. Organisations that deliver high-quality, impeccable customer experiences increase market share and have a significantly higher return on investment. Not moving towards excellence means you are striving to be no better than the competition. In order to not do this, you must create a culture of excellence. Not doing so means average will start to creep in and it's insidious and clandestine.

Denial is the first reaction most organisations have when losing their excellence to average. Next, the real scary part, it is the acceptance of average as their excellence. Of course, the first to notice are your customers. And they usually let you know by going over to the competition.

Creating a culture of excellence might sound easy. Unfortunately, without a strategy and set of tools, it's not. If you don't have them, creating a culture of excellence becomes nearly impossible. Soon you start to notice a decrease in market share that means you are simultaneously increasing the competitions. This should really frighten you.

The good news is that you can create your own culture of excellence and become a results-focused organisation where your people come to work every day and give and be their best. Creating a culture of excellence begins when you face the reality that your excellence may have been kidnapped. By first admitting it, you then can start to focus on the four tenets of excellence.

First, excellence is an inside out proposition. It starts with you. Look into the mirror and ask yourself: "Is excellence staring back at me?" Second, excellence is measured by your best, not someone else's. You may think you're in a race, except no one else is racing against you. It's your best. Third, there is no second place for excellence. It (excellence) is the goal – you are either moving towards it or away from it. Last, all five behavioural traits for attaining and maintaining excellence must be present, i.e., passion, competence, communication, flexibility and ownership.

**Passion:** Have a passion and an understanding for what you are doing and know the real product behind the product of your company. Create zest inside you for life that causes you to smile even when circumstances are against you, go the extra mile and see life and work as an opportunity to make a difference, not something we have to get through. Not be burdened by the sludge of negativity.

For example: Zappos.com, Inc., the large online retailer, wants people who are passionate about customer service. In the four-week training programme, at the end of each week, new hires are offered $2,000 to quit. Why? Zappos wants to make

**Harry Paul** is a motivational speaker who has co-authored seven business books, including the best-seller *FISH!A Proven Way to Boost Morale and Improve Results*, and *Who Kidnapped Excellence?*

sure they are passionate about sitting in a cubicle all day long in the call centre delivering a Wow! customer experience.

**Competence:** Continuously build the skills to get the job done and remain competitive. Not just in the technical aspects of your work and life, but it's also important in your relationships with others, to share information so everyone succeeds – not use it as a weapon.

**Communication:** Communicate all roles and responsibilities effectively and without confusion. Perception is everything and it is created by effectively communicating. Understand that there is a delicate balance between listening and talking – practice active listening. Communication is also recognising and appreciating people when they go the extra mile.

**Flexibility:** Have the flexibility to do things differently in the ever changing-competitive business environment we all dwell in. Know that the only thing that remains constant is that everything changes, deal with these changes in a practical and professional manner. Look at change as something you are gaining – not at what you may be losing. Southwest Airlines, a large US discount carrier, is a prime example of flexibility. The pilots will help get the cabin ready between flights to reduce turnaround time (passengers leaving the plane after arrival and new passengers boarding for take-off). It is certainly not in their job description, but it is important to keep flights on time. Southwest has enjoyed 45 consecutive years of profitability.

RAJ VERMA

**Organisations that deliver high-quality, impeccable customer experiences increase market share and have higher return on investment. Not moving towards excellence means you are striving to be no better than the competition**

**Ownership:** Take ownership for the productivity and profitability of the organisation. Accept your responsibilities and use your judgement even in the face of constraints and barriers. If you see something that needs fixing, do it even if it is not your job. At Deloitte, the large accounting firm believes that taking responsibility for what they do for the client, people, communities and society are all interconnected. Give management and employees alike a purpose for going to work every day and being their best.

It is imperative that all five of these behavioural traits are practiced daily for excellence to take hold both professionally and personally. If you miss any of these, then you're moving away from excellence towards average. Your passion becomes indifferent, and you stop caring. Your customers and fellow clients will be the first to notice.

Don't embrace ongoing learning and information sharing and you start to become incompetent in your abilities. You become confusing in your communications. There is no clarity and you become the master of mixed messages. You stop listening to the viewpoint of others. Your flexibility becomes stiff and you accept doing everything the way it was always done before. The inability to stretch becomes missed opportunities. You choose policy and procedure over adaptability and common sense. You stop taking responsibility for your actions and look for someone else to blame. Pretending that you care, you simply want to deceive and impress.

Now is the time to create a culture of excellence and banish average from your organisation forever. It's a must to survive in the ever-increasing people-centric business world. It sets you apart from the competition and it also cannot be duplicated by them, because all the people in your organisation make up your culture of excellence. ◆

# Glimpses of the best moment

(From left to right) - Gaurav C Sawant-Editor TVTN , Manohar Parrikar - Defence Minister of India, General Bikram Singh - Former Chief of Indian Army and Amar Sinha - Executive Director Wave Infratech

(From left to right) - Derek O'Brien- MP Trinamool Congress Jyotiraditya Scindia-MP Congress , Dushyant Chautala - MP INLD, Mohammed Salim MP CPI(M) , Balbir Punj - MP BJP and R K Panpalia - Managing Director Wave Infratech

Mr. Manpreet Singh - Vice Chairman Wave Infratech speaking at India Today Conclave 2015

INDIA TODAY CONCLAVE 2015
MARCH 13 - 14
NEW DELHI

## Genesis Global School, Proud to b

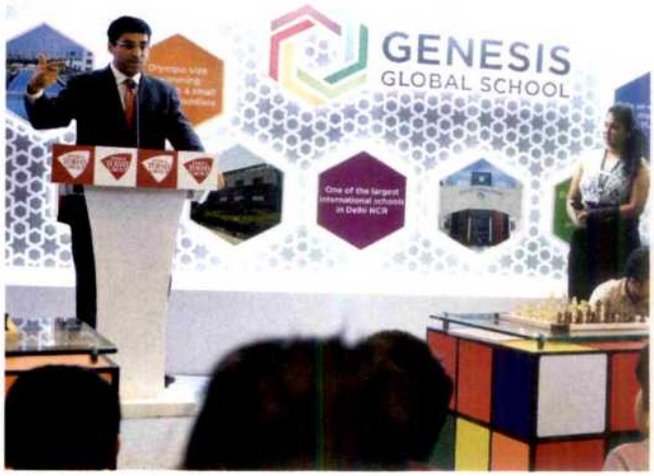
Genesis Global School, Noida is a 30 acre Day & Residential School in Noida, Delhi – NCR. The School w ranked # 7 nationally, and # 3 in Delhi NCR in the 'Day & Residential School' category in 2014, by Education Worl

**Curriculum:** The School implements the CBSE, IB PYP, CS1, IGCSE and IBDP curriculums and offers students tl choice between studying the National or International curriculum.

**Infrastructure:** The School's Wi-Fi campus has been aesthetically designed, complete with spacious tech enabl Classrooms, Multimedia Library, Computer Lab, Language Lab, Science and Design Technology Labs and Mer Rooms, at par with international standards.

# at India Today Conclave 2015

(From left to right) - Mr. Manpreet Singh- Vice Chairman Wave Infratech, Mr. Rahul Kanwal- Managing Editor TVTN and Mr. Manohar Lal Khattar- Chief Minister of Haryana seen here sharing a moment.




Chess Champion, Viswanathan Anand interacting with scholars from Genesis Global School at the Genesis Lounge.

## ssociated with India Today Conclave 2015.

**orts:** The Sports curriculum at Genesis has been designed giving a choice of 21 different sports, with Swimming as one of the mpulsory sports.

**sociations:** The Schools collaboration with Clifton College, UK provides a platform for sharing of best practices, on a regular basis.

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AMIT SHARMA

# Rise of the

**A bunch of new entrants is gaining a foothold in the Indian smartphone and TV markets.** By NIDHI SINGAL

Not long ago, big global players ruled the Indian smartphone and TV markets. What were the brand choices in the noughties while buying a reliable smartphone? The popular offerings all came from Apple, Samsung, BlackBerry or Nokia. The market share of other brands was negligible. It was the same with TVs – Samsung, LG and Sony ruled.

Indigenous Micromax was the first to break into the exclusive handset club, entering the feature phones market in 2008 and the smartphone one in 2010. In the second quarter of 2013/14, it became the largest handset supplier in India, overtaking Samsung. Two more Indian companies, Karbonn and Lava, followed, selling in substantial numbers. And in the last two years, still more new brands have disrupted the market.

China's Gionee entered India in February 2013 and has sold four million devices so far. Xiaomi and OnePlus, both also from China, fol-

lowed in July 2014 and December 2014, respectively, blazing similarly successful trails. "India contributed 7 per cent of our overall sales last year within just one month of starting operations and without any significant marketing or promotion activities," says Vikas Agarwal, General Manager – India, OnePlus. "The Indian market now accounts for about 20 per cent of our global sales and is our fastest growing. It is also among our top three markets worldwide."

Alongside the rookies, a veteran which had retired hurt also returned. Motorola Mobility's dwindling sales had led it to quit India in November 2012. It was back in February last year and has since sold three million smartphones.

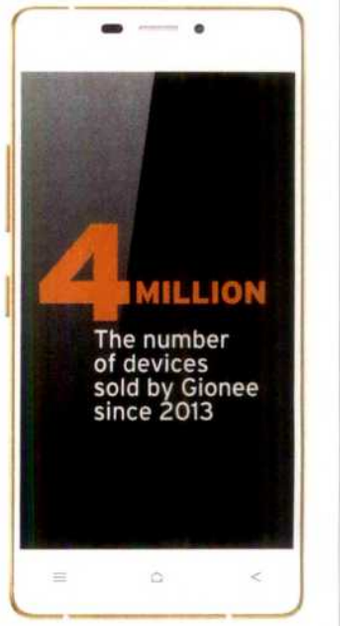
The primary reason for the newcomers' success is competitive pricing, without compromising on the look of the device or its specifications. While Samsung Galaxy S5, for instance, was priced above ₹50,000 (when launched early last year), OnePlus One, which has similar specifications, was priced at $299 when launched abroad. In India, it was launched for ₹21,990 for the 64GB variant. Trust was built by the newcomers throug video reviews on YouTube with plenty of customer feedback. The Indian entrants first made their presence felt among handsets priced below ₹10,000, but have since gained a market in the mid-segment (₹10,000 to ₹25,000) too.

Among Chinese entrants, Xiaomi made a splash with its flash-sale strategy – offering a limited number of handsets from time to time, and that too only online. OnePlus, in turn, initially used the 'invite only' approach to stress exclusivity – it was available only to customers it sent invites to. While Xiaomi tied up with Flipkart for exclusive sales, OnePlus allied with Amazon India.

Following Xiaomi's success, Micromax – in partnership with operating system maker Cyanogen – launched a new brand YU in December 2014 which it sells only through flash sales on Amazon India. Motorola, too, prefers to sell its Moto series solely online, as does Chinese telecom equipment maker Huawei, which entered the Indian smartphone segment with its Honor brand.

Exclusive online distribution helps cut costs as the e-tailer can import the device directly from the company without paying commissions to distributors as brick-and-mortar outlets have to. But not all have opted for it. "The offline model has been very successful in driving our sales," says Arvind Vohra, Country CEO and Managing Director, Gionee India. "We only sell through our retail and channel partners. We are not selling directly through any e-commerce portal."

It is the same with TVs. While some of the established global players are reportedly contemplating quitting the business, indigenous ones such as Micromax, Mitashi and VU Technologies have aggressively entered the market with not merely LCD and LED TVs but also state-of-the-art Ultra HD TVs. Here, too, the price gap is substantial. For instance, Micromax's recently launched 49-inch UHD Android TV costs ₹49,990 on Flipkart, as against the ₹1 lakh price tag on 50-inch Samsung or Sony models.




# Rookies

The newcomers in the smartphone category have also moved into other devices. Xiaomi, for example, has the Mi Pad tablet, the Mi fitness band and the Yi action camera, all of which can be synced. Fitness bands, in particular, along with other kinds of wearable technology, are expected to see tremendous growth in coming years. The recent entrants are likely to make a dent in these segments as well, given the budget prices they are selling them at. ◆

# A Tad Pricey

HUAWEI'S HONOR 6 PLUS FEELS LIKE A PREMIUM SMARTPHONE BUT IS A LITTLE TOO EXPENSIVE.

**By NIDHI SINGAL**

Huawei's latest smartphone Honor 6 has glass both in front and at the back, which makes it slightly slippery to hold and leaves visible fingerprints whenever picked up. Still, the grip is comfortable, and despite its 5.5-inch screen it can be operated with just one hand. The screen glass is Corning Gorilla Glass 3 with 1920x1080 pixel resolution. Images are crisp and sharp and can be made out even under bright sunlight. Touch sensitivity is also good. There is a special 'glove mode' of increased sensitivity which makes it possible to use the device while wearing gloves.

A key feature is the presence of two rear cameras. Two cameras are not intended to create 3D images but to add depth and light to photographs, the company claims. There is a wide variety of camera settings and modes – the default camera setting is 8MP, but this can be enhanced to 13MP if desired. Photos are good quality even when taken in low light. They can even be watermarked if desired.

The device has a 1.8 GHz quad-core with a 1.3 GHz quad-core processor and is paired with three GB RAM, which makes it a snappy performer. It runs on Android KitKat operating system. The user interface can be customised, with apps placed across home screens. It has 32 GB storage and a powerful 3,600 mAh battery that lasts more than a day despite heavy usage including a couple of hours spent imaging.

Heavy graphic apps run without any lag. Switching between running apps is smooth. HD videos can be played without a hitch, making it a great multimedia device. But it did heat up after a couple of hours of running. ◆

**BAG IT OR JUNK IT:**

A great device, but OnePlus's One provides much the same features at a lower price

**PRICE:** ₹26,499

**PLUS:** Performance, camera

**MINUS:** Price

# No Longer a Luxury

MICROMAX HAS REWRITTEN THE RULEBOOK BY MAKING AN AFFORDABLE 49-INCH 4K LED TV. **By NIDHI SINGAL**

Until a couple of years ago, buying a 4K TV was an expensive affair, but not anymore. Companies such as VU Technologies, Mitashi and Videocon have helped bring down the price of a 50-inch UHD TV to below ₹1 lakh. Micromax has, in fact, rewritten the rulebook by pricing its 49-inch 4K LED TV below ₹50,000.

This UHD TV has a metal bezel and frame that gives it a premium feel. There is Micromax branding in the front. The rest of the controls are placed at the rear. It has two HDMI ports at the rear that are slightly difficult to access when the TV is mounted on the wall. The three USB ports are placed in such a way that they are accessible from the side. Other connectivity options include SD card slot, VGA connector, one AV input, one video output and a headphone jack.

It has 3840x2160 pixel resolution that makes everything look sharp and clear. The picture quality is good. It offers great depth too. However, the red tone on default settings is a bit too prominent, making the skin tone look a little artificial. As this is an Android TV, you won't find the basic settings in Android mode. So, just go to the main TV mode and adjust the display settings. Just like any other TV, even this one has various predefined modes. One can even manually adjust the settings.

It comes with built-in Wi-Fi, which is easy to set up using the remote. It comes preloaded with apps such as Twitter, YouTube and G-sensor games. More apps can be downloaded from the Play Store. Running on Android KitKat 4.4, it has a dual core CPU and a quad core GPU paired with 1 GB RAM. It does take a few seconds when powered on and there aren't any speed issues. It is accompanied with a compact remote with minimalistic design. The response time of the remote is superb as I was easily able to navigate through the onscreen keyboard. It supports voice commands but not 3D. ◆

**BAG IT OR JUNK IT:**

Future-ready at an inexpensive price tag

**PRICE:** ₹49,990

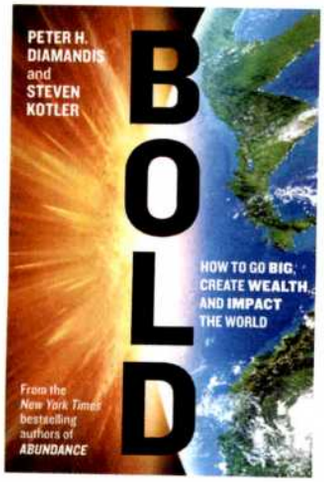
**PLUS:** Price, Android TV

**MINUS:** Only two HDMI ports

*@nidhisingal*

# Big Ideas to Achieve Goals

**The book is a crash course on entrepreneurship for anyone who wants to be challenged. By ASHISH JAKHANWALA**




***BOLD:***
***How to go Big, Create Wealth and Impact the World***
**By Peter H. Diamandis and Steven Kotler**

PAGES: 336
PRICE: $28
Simon & Schuster

*BOLD* is a good read for anyone who wants to be challenged and while some of the chapters do seem a bit long, a liberal sprinkling of quotes keeps the interest alive

I started reading this book with two disadvantages. One, I have a strong distaste for self-help books and second, I am a poor reader! *BOLD* helped me challenge both successfully. At a cursory look, *BOLD* seems like a guide book for technology start-ups. However, as you dive deep into the book, the concepts and ideas apply to entrepreneurship at large.

The book is well segmented into three sections. The first covers technologies that will aid entrepreneurs to be the next billionaires; the second shares psychological tools and attitudes that will help them achieve an ambitious goal; and finally, it gets into concepts such as crowdsourcing and crowdfunding that help convert potential ideas into successful businesses.

The first section starts with a "6Ds" framework, which in many ways explains how tech companies create multi-billion dollar value in a short span of time. The book introduces five technologies with highest potential – 3D Printing, Sensors and Networks, Robotics, Infinite Computing, and Synthetic Biotechnology. While all future success stories may not be limited to these five technologies, the book allows one to identify and isolate both the technologies as well as the right part in their evolution path to yield best investment results.

The second section which deals with the psychological lessons to "go big and create wealth" is the most insightful. It starts by introducing us to the Skunk concept of isolating teams that create big ideas. Most entrepreneurs reminisce about the times when they were still in a garage or a small business centre – the disproportionate success of that stage is explained by a phase of isolation encouraging autonomy and risk taking.

The last section talks about harnessing the power of people with ideas such as crowdsourcing, crowdfunding, building communities and incentive competition.

The book gives fascinating insights into the world of Silicon Valley, the mecca of billion-dollar entrepreneurial stories. Some anecdotes are fascinating and worth a try for every business and not just entrepreneurs. Take Google, for instance, which encourages its people to spend 20 per cent of their time on their own ideas, or what is known as the real 120 per cent time and the fail quick, fail often and fail forward encouragement given to every Silicon Valley start-up. The book encourages setting "bold" goals early on and to generate "super credibility" for such goals. The two combined together prevent businesses from being trapped in mediocrity and sub-optimal scale.

The book takes readers through the journey of some successful billionaires such as Elon Musk, Sir Richard Branson, Jeff Bezos and Larry Page and distils their wisdom. Concepts are linked with real-life successes. But this is the first place where one questions if there is any one recipe for success or is it like riding a bicycle – where each one of us have to learn on our own. Nevertheless, for every entrepreneur, reading the stories of superstars of the billion-dollar club will, perhaps, be no less fascinating than a six-year-old girl watching *Cinderella*.

*BOLD* is a good read for anyone who wants to be challenged and while some of the chapters do seem a bit long, a liberal sprinkling of quotes keeps the interest alive. My favourite quote: "Start at the top and then work your way up"! ◆

*The reviewer is founder and CEO of SAMHI Hotels, one of India's fastest-growing multi-branded hotel asset company*

# *Trade Talks through a Travel Lens*

## With rich stories, this book maps cultural diversity and its effect on business. By ABHISHEK AGRAWAL

***My World with Rafiki: An Economic Travelogue and Miscellany***
**By Biswajit Nag**
PAGES: 138
PRICE: ₹399
Partridge

I have always wondered whether the socio-economic conditions of a region influence its culture or is it vice-versa? While I was seeking an answer to this conundrum, I chanced upon *My World with Rafiki: An Economic Travelogue and Miscellany*. It is a fascinating book filled with rich stories based on the observations of Dr Biswajit Nag, a senior faculty at Indian Institute of Foreign Trade, New Delhi, who has also done stints with UNCTAD India and UN-ESCAP, during his travels through more than 30 countries. Nag has the storyteller's knack of weaving in insights through anecdotes and the reader benefits richly from his observations. Somewhere while narrating these beautiful stories, he succinctly delves deep into complex subjects such as the nature and the root cause of corruption in India and liberalisation through an easy-to-understand behaviour matrix.

In the course of my visits to business schools and interactions with students from various countries, I have often wondered why MBA students are least interested in business-to-government and business-to-society relationships. Most of their textbooks and case studies revolve around pure corporate, business and consumer issues; while the business reality is quite different – governments and societies impact the businesses the most. This book would be an absolute delight to those life learners who want fast-paced stories to powerfully illustrate the extraordinary values of cultural and social diversity and their impact on businesses.

The book is divided into 10 chapters, which deal with free trade agreements, productivity and network development, Japan and innovation, among others. The last chapter on Ukraine gives a contemporary picture of what triggers the bilateral and multi-lateral relations among countries and continents and how. The beauty of this discussion is that the entire analysis takes place through exchange of emails between the author and one of his students. At the end, the author generously shares the resources and database and tools for analysis of business and economic environment of a country.

While the book mixes stories and theories beautifully in the midst of travel adventures, the chapters are quite random. This randomness creates hope for many more such stories from the author in the future editions of the book. To describe it simply, it is a little book of life and humanised economics. ◆

*The reviewer is Executive Director at Marketing and Development Research Associates. He writes on the business of business schools and is a market researcher by profession*

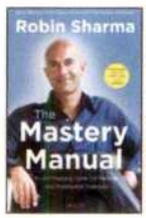
## Blue Ocean Strategy

THE FORTNIGHTLY PICK

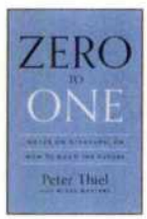
By W. Chan Kim, Renee Mauborgne
Harvard Business Press
Price: ₹1,250
The 2015 edition expands the 2005 bestseller on business strategy with updates on all cases and two new chapters

## BUSINESS BESTSELLERS*

*Dream with Your Eyes Open*
By Ronnie Screwvala
Rupa Publications
Price: ₹500




*The Mastery Manual*
By Robin Sharma
Jaico Publishing House
Price: ₹199




*Zero to One*
By Peter Thiel
Random House
Price: ₹499

*Arise, Awake*
By Rashmi Bansal
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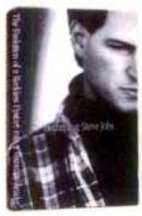

*Becoming Steve Jobs*
By Brent Schlender
Hodder and Stoughton
Price: ₹699

*Top books by sales for Mar 29-April 11; includes only books released after April 1, 2014; Information provided by amazon.in

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**Photon Interactive Private limited**
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**WNS Global Services Private Limited**
Account Payable
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**Job ID:** 16740768
**Description:** Excellent Communication skills, Invoice Processing/Vendor Management etc.

**FrontAhead HR Solutions**
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**Location:** Mumbai
**Job ID:** 16719663
**Description:** Prepares asset, liability, and capital account entries by compiling and analyzing account information.

**PeopleTree HR Services Private Limited**
Accounts Manager
**Location:** Bengaluru / Bangalore
**Job ID:** 16688557
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**ABC Consultants Private Limited**
Sr. Manager- Audit & Assurance
**Location:** Bengaluru / Bangalore, Delhi
**Job ID:** 16726827
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**Juniper Networks Inc.**
Finance Manager - Statutory and Compliance
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# In Their Own World

**MANISH BHATT**, **ARUNAVA SENGUPTA** and **RAGHU BHAT**, who gave up their cushy jobs in WPP-owned Contract Advertising to set up their own agency Scarecrow Communications in 2010, are a sought-after lot in the advertising industry. Ask any big advertising conglomerate about an independent agency they would like to bring into their fold, the answer invariably will be Scarecrow. However, the trio have made it clear from day one that they will never be acquired by a larger network. "We were not into the game of creating something and then selling it off. We wanted to start something that will exist for the next 100 years," says Bhatt, the founder Director. "We do not want to cash out and retire. We are too young for that," adds Sengupta. Scarecrow recently became the first Indian agency to make it to the list of the world's top 15 independent advertising agencies.

AJITA SHASHIDHAR

**(From left) Manish Bhatt, Arunava Sengupta, Raghu Bhat**
Co-founders, Scarecrow Communications

RACHIT GOSWAMI

# Keeping an Eagle Eye

From watching the action in the skies to being an observer of political maneouvres on the ground, **NASIM ZAIDI** has had good practice at keeping an eye on things. Now, the former aviation secretary, who went on to become an election commissioner, will have to play the part of a tough watchdog as the new Chief Election Commissioner. Zaidi takes over from H.S. Brahma and, with the upcoming Bihar elections promising to be a bruising political battle, he will have lots to do.

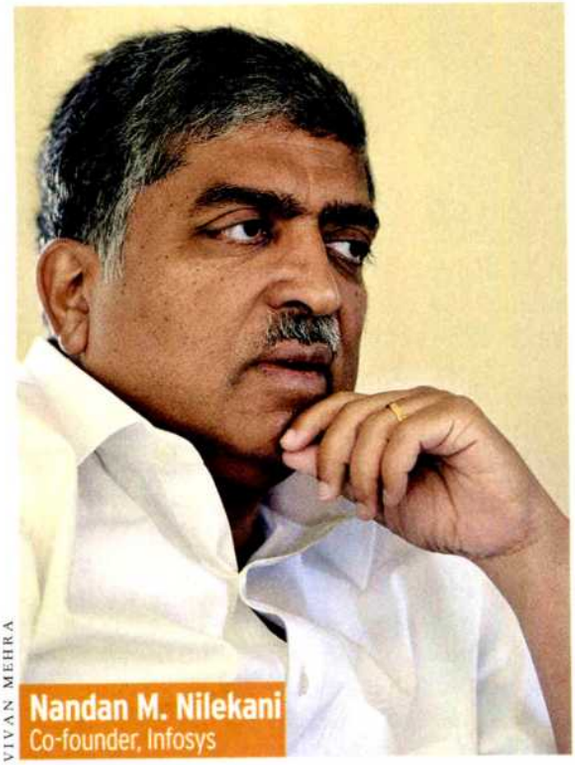
CHITRA NARAYANAN

**Nasim Zaidi**
Chief Election Commissioner

## Reimagining India?

After his loss in the general elections from Bangalore South last year, **NANDAN M. NILEKANI**, Infosys co-founder, former UIDAI chairman and Congressman, had deliberately kept a low profile. He focused on his philanthropic activities in areas like governance and primary education apart from championing entrepreneurship in a low-key manner. With his second book likely to be launched shortly, Nilekani, 59, has stepped up his public appearances. His first book *Imagining India: The Idea of a Renewed Nation* was a runaway bestseller.

VENKATESHA BABU



VIVAN MEHRA

**Nandan M. Nilekani**
Co-founder, Infosys

**Kunal Shah**
Founder, FreeCharge

**Kunal Bahl**
Founder, Snapdeal

## Nothing Free About It

When the two Kunals, **KUNAL SHAH** of mobile recharge company FreeCharge and **KUNAL BAHL** of Snapdeal, began building their businesses in 2010, little did they know that a few years later, one would end up acquiring the other. FreeCharge, which for every mobile recharge gives its customers a discount coupon worth the same value, was recently lapped up by online marketplace Snapdeal for roughly $400 million. It is being billed as India's largest start-up M&A, ahead of Flipkart's $370 million acquisition of Myntra last year. The move will make Snapdeal one of the country's largest m-commerce players with access to FreeCharge's 20 million user base and 300-odd companies that sell their discount coupons on FreeCharge. Shah had raised $120 million from marquee investors before the acquisition.

TASLIMA KHAN

## Judgment Day

"This is a landmark judgment," is how many in India Inc. reacted when they heard that in a case that ran for about six years, **B. RAMALINGA RAJU**, his brother B. Rama Raju and eight others were finally sentenced to seven years of rigorous imprisonment in the muti-crore Satyam fraud case on April 9. While many corporate executives have been arrested and jailed for committing fraud in the past, this was the first high-profile case where the sentencing actually happened. The case, however, is far from closed as the 10 convicted in the case have now appealed against the verdict and are seeking bail in a higher court.

E. KUMAR SHARMA

A. PRABHAKAR RAO

**B. Ramalinga Raju**
Ex-Chairman, Satyam Computer Services

Full interview with Shantanu Narayen at businesstoday.in/adobe-narayen

VIVAN MEHRA

**Adobe Systems, which owns products like Photoshop and Acrobat Reader, was quick to reinvent itself for the cloud era, and also move into services – notably, digital marketing. Chitra Narayanan talks to Shantanu Narayen, President and CEO of the $4.14 billion tech company. Excerpts:**

***From installed software to the cloud era, how did you choose the right moment to make your business model transformation? Did you get lucky?***

It was more than luck, it was clarity of thinking and execution. There are three things to keep in mind when an organisation goes through such a transformation. First, articulate a vision of how it will be better for your customers. Moving to cloud would offer better value for our customers. We could innovate faster... We could attract a whole new generation of people with affordable pricing. Second, every time you say "preserve status quo", it is a failing strategy. The reason we are incredibly successful is we are constantly thinking about how technology can disrupt us. You need to have awareness, humility and understanding that things can change. Third, and I cannot overemphasise it, it's the people. Magic happens when you get the right people. Companies that talk of great strategies and don't execute them, fail. Companies that only talk about execution without strategy also fail.

***Often, during the transition, shareholders are impatient. How do you deal with that?***

Shareholders are incredibly perceptive if you are clear about where you are headed. If you provide milestones along the way and if you measure yourself against the milestones so that people have something to calibrate you against, they understand. The general advice is: If there is a change, then you have to be clear about the metrics that demonstrate how you are going to make progress.

***The world is moving to tougher revenue models like usage based. Has it hurt you? How do you cope?***

We have been through the transition... You have to have fortitude. Companies need to be transparent. Also, revenue is not always a metric. Usage is a metric. That gives people confidence that the strategy is on the right track.

***What are the lessons on making smart acquisitions?***

First, look at the strategic rationale. Second, dive deep into the technology. Third, and equally important thing, is people... making sure there is a cultural fit.

***During the business model re-engineering, which were the toughest as well as the easiest challenges?***

Instead of toughest challenges, I would say the thing I underestimated was how important it was to keep communicating – internally and externally... why we were making the change... The easiest part was the fundamental belief we could deliver more value to customers. ◆

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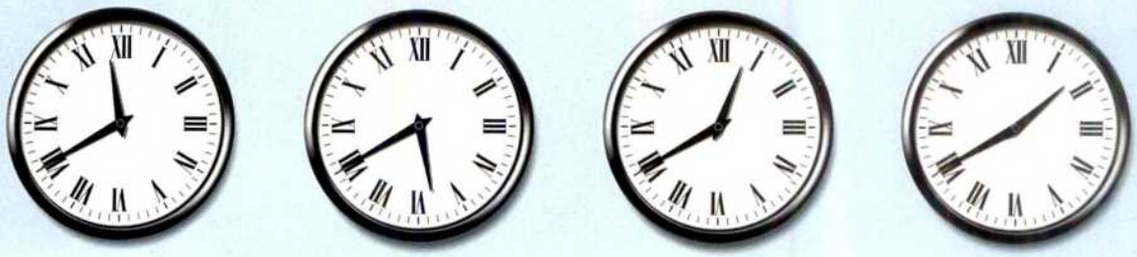

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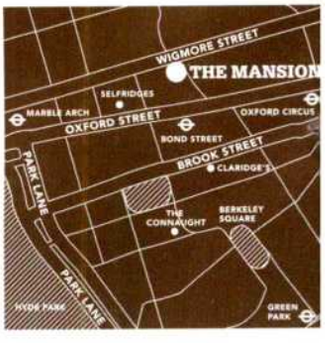

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# From the Editor

# Battle for Supremacy

India has seen some extremely colourful and bitterly fought marketing wars in the past when two or three combatants jostled for supremacy in high growth markets. In the mid-1980s, Hindustan Lever (now Hindustan Unilever) suddenly found itself facing a rival that came out of the blue. Till then, the company was the king of the FMCG market, dominating the soaps, detergents and personal care categories. A fledgling Ahmedabad-based company, Nirma, created a product aimed at the bottom end of the detergent market. The Hindustan Lever vs Nirma war became a talking point in all marketing circles, and even business schools.

In the 1990s, Unilever's old global rival, Procter & Gamble also upped the ante. It introduced products that were meant to paint the leading HLL brands as fuddy-duddy and mid-market. This war continued for half a decade and before the market settled down finally, both companies had thrown their most potent advertising, and best marketing brains into the battlefield.

In a parallel battlefield in the 90s, Coke and Pepsi, too, duked it out for market supremacy. Pepsi had entered first, and it had battled Ramesh Chauhan's Thums Up and other brands initially. Then Coke came in. It was Coca-Cola's second entry – having been thrown out during the Janata regime by George Fernandes in 1977.

In more recent times, the mobile market has seen some interesting battles. First there was Nokia vs Samsung for the market leadership in India. Then after Nokia faded away, Micromax came out of nowhere to challenge Samsung in India. Now both Micromax and Samsung are facing the onslaught of the Chinese challengers – Xiaomi, Lenovo, Gionee...

But all those battles pale in comparison to the big fights taking place in the different e-commerce segments in the country today. Flipkart is fighting with Snapdeal and Amazon in the horizontal e-commerce space. In fashion, Myntra, now owned by Flipkart, is trying to stay ahead of Jabong. In online classifieds, OLX and Quikr are trying to kill each other. Zomato and Foodpanda are raising enormous sums of money and gobbling up smaller start-ups as they aim for supremacy in the food space. In furniture, Pepperfry and Urban Ladder have pulled ahead of the herd.

The e-commerce space is unforgiving across the world. In most categories, it is a high volume, low margin game. (Fashion and Furniture in general have better margins). In markets across the world, the accepted wisdom is that only one player survives. In that sense, what we are witnessing is different from what other battles have been. In FMCG, colas and even consumer durables, there has been space for two or three players.

*Business Today*'s e-commerce team – Goutam Das, Taslima Khan and Manu Kaushik – bring you the strategies and tactics being tried out.

Talking of battles, India's most flamboyant tycoon Vijay Mallya has lost much of his empire. He is now fighting to retain what little he still has in terms of businesses. (Personally, he remains a rich man). Read the details in our story on page 52.

Finally, Narendra Modi will complete one year as prime minister on May 26. What has he achieved in these 12 months? We bring you the report card.

Prosenjit Datta

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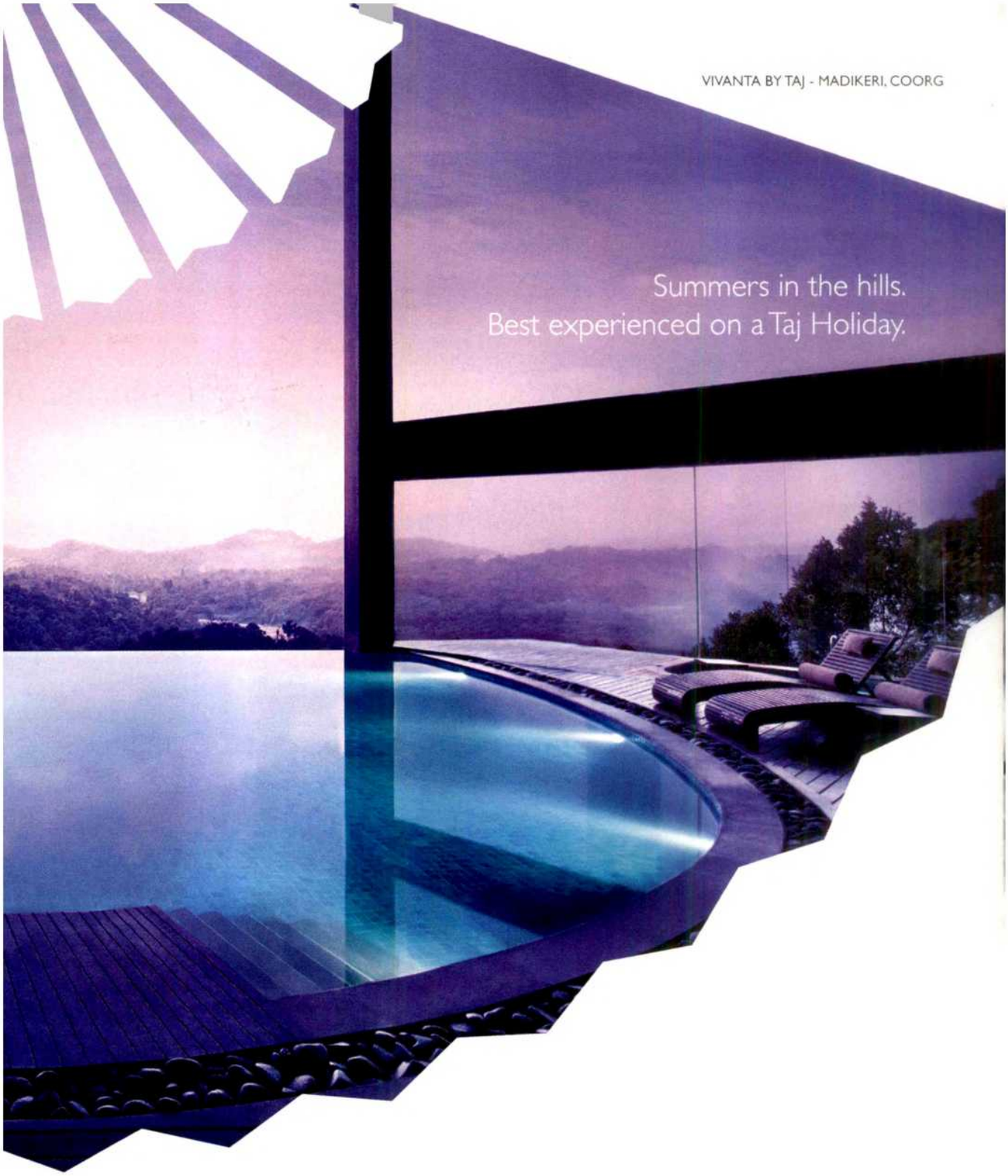


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# Re: Letters to the Editor

## Harnessing Solar Power

This refers to your excellent cover story *The 100 GW Headache* (May 10). The prime minister's strategy needs to be appreciated in view of the benefits of solar energy. That it would take seven years to reach the target is understandable, considering the size of our country. The scope for harnessing solar power in India is immense. Solar cells have many diverse applications, from handheld computers to earth-orbiting satellites and remote radio telephones. Ordinary households can save a great deal if they go solar for all their electrical needs.

**J.S. Broca**, *New Delhi*

## Telcos Must Cut Internet Tariffs

This refers to the article *Fighting for Access* (May 10). The debate on Net neutrality shows how businesses play against the public and national interest. Today, Internet is a must for the country's development in all spheres. However, due to high tariffs, a very low percentage of the population uses the Internet. Public sector BSNL and MTNL must provide a hassle-free service at nominal charges while private service providers must cut their tariffs following the economic principle of larger volume resulting in more profits as the fixed cost remains the same.

**Mahesh Kapasi**, *New Delhi*

## No Right to Monopolise

The article *Fighting for Access* offers a dispassionate review of the problems in ensuring Net neutrality. Telecom companies speak of level-playing ground and seek the fullest fruition of globalisation but sprout their lips to netizens for partaking of the progressive developments in the Internet arena. The companies have a responsibility to stimulate economic growth and if they are finding their business unviable, they should quit as other competent companies will come forward to occupy that space. They do not have any right to monopolise the market.

**B. Rajasekaran**, *Bangalore*

## Bank-Corporate Nexus?

This refers to the article *Wrecked by Debt* (April 26). I have always wondered how the rich industrialists of India can borrow thousands of crores from banks and lead luxurious lifestyles even after they default on their loans, yet a simple farmer in some remote corner of the country has to end his life if he is unable to repay his loan. The banks which lend the most are state-run. Is there a nexus between the banks and industrialists?

**M.I. Choudhury**, *Dibrugarh*

*Send all your comments to:* editor.bt@intoday.com

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**Trai website hacked over Net neutrality row.**
Why Chairman of TRAI didn't take precautionary steps before releasing the e-mails? Is he literate or illiterate?
- **Muthu Karuppann**, *@karuppann*

**Need to revisit Anti-corruption Act provisions, says FM.**
Whatever changes are brought in, should leave no scope for human interference/bribery.
- **Dr Narain Rupani**, *@DrRupani*

**@narendramodi donates a month's salary to PM's National Relief Fund.**
Plz donate all the black money stacked abroad. Swiss will agree to give.
- **Shatrughan Prasad**, *@shatruk125*

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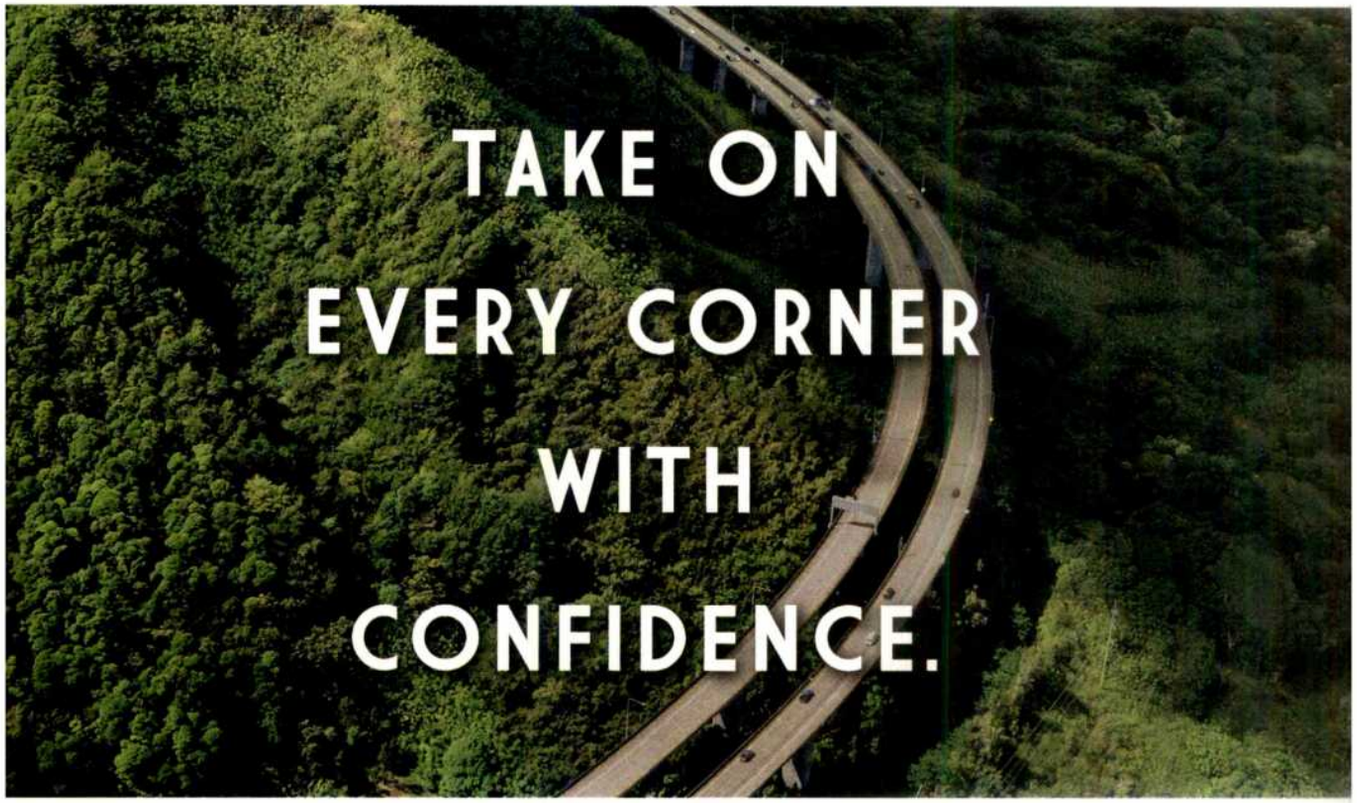


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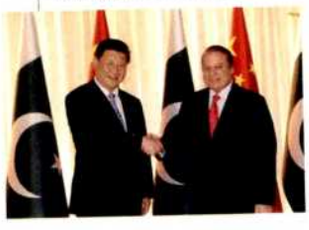

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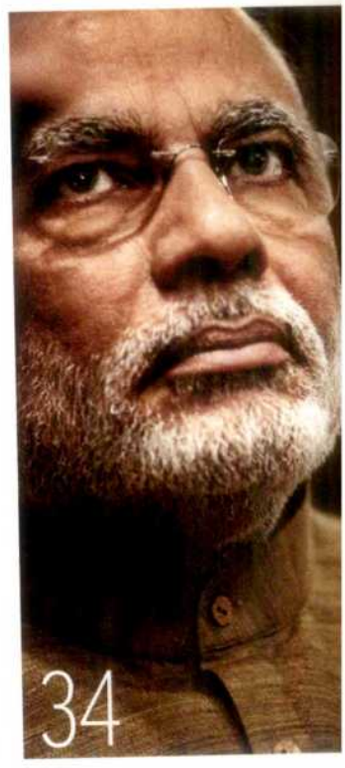

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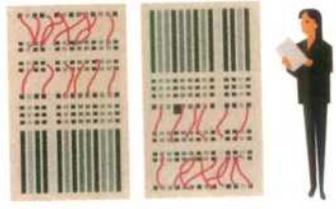

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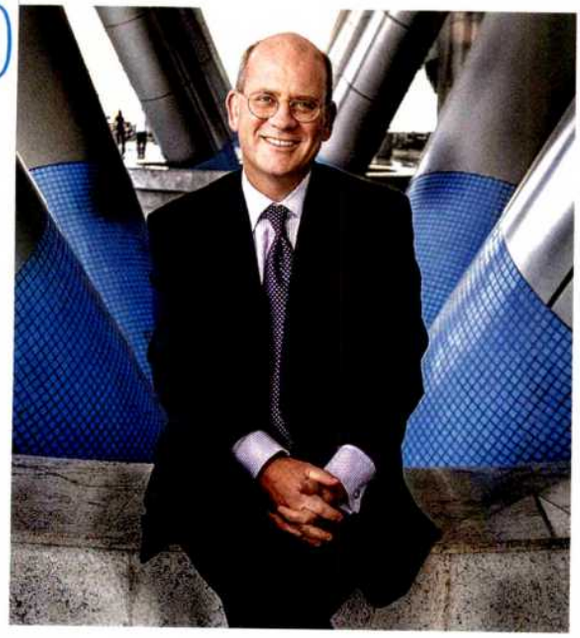


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**INTERVIEW**

**"Mobile apps the next big thing in online hotel booking"**
Rajesh Magow (CEO-India), MakeMyTrip.com, talks to **Jyotindra Dubey** about the changing patterns of booking hotels in India and how the company is geared up to profit from this trend.
businesstoday.in/makemytrip-magow

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**Why Infosys should stay the course**
Lower attrition, higher dividends, an acquisition and a bonus issue has failed to assuage investors, but CEO Vishal Sikka should focus on an 18-24-month strategy, says **Venkatesha Babu.**
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**What's in a Designation?**
**Sanjoe Jose** of Talview.com lists some quirky designations to change the mindset of HR leaders.
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**Xiaomi Mi Band**
At a compelling price of ₹999, the Mi Band does justice to the concept of the fitness tracker, says Nidhi Singal.
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Companies need to entrust experienced people with their social media accounts to ensure that their reputation is polished, not tarnished, says **Chitra Narayanan.**
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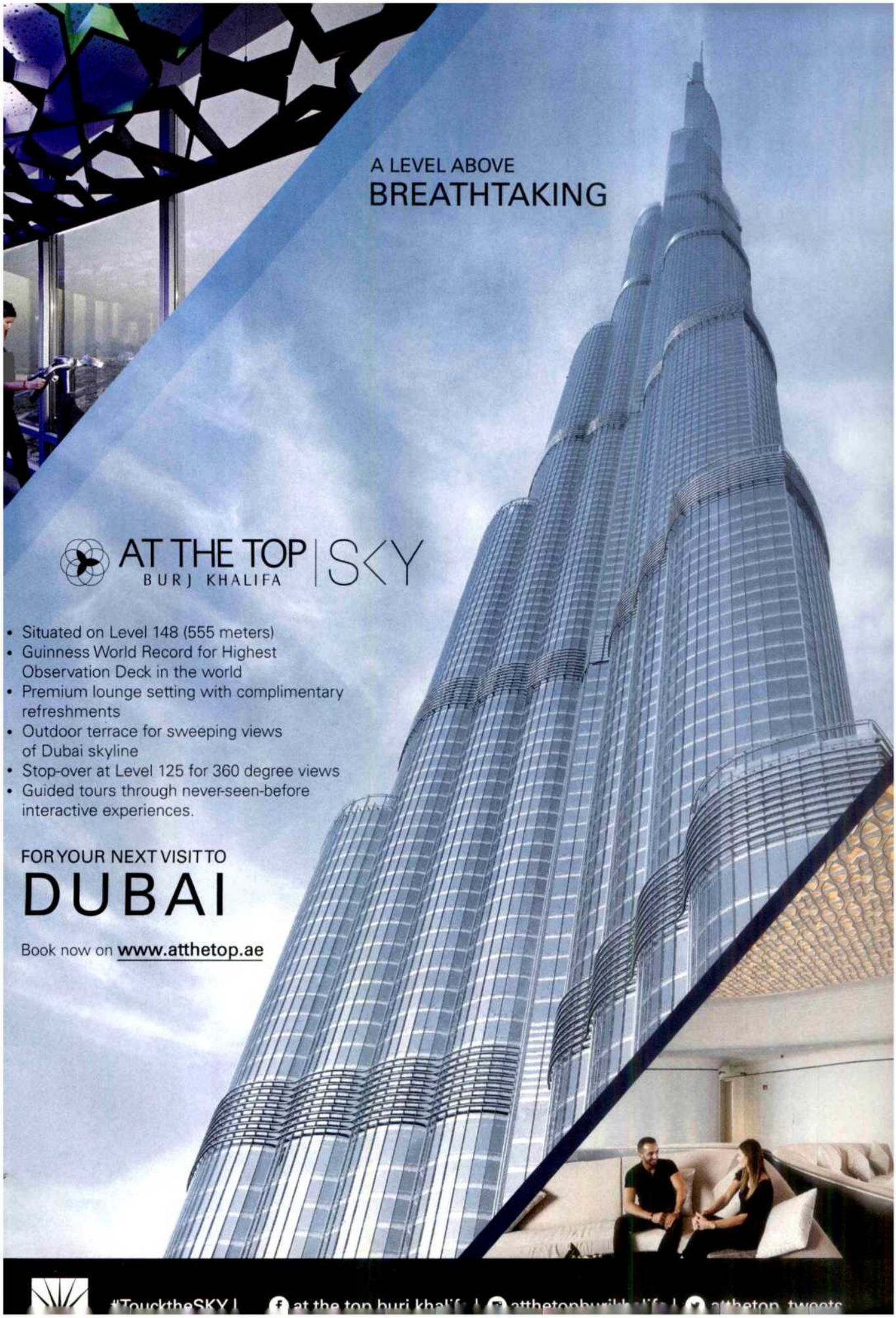
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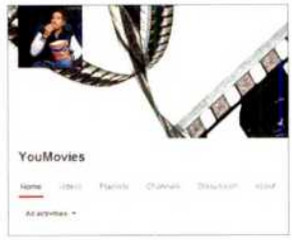
RAJ VERMA

"What we don't want to do is just be participating in something and providing cover for an institution that does not end up doing right by its people"

US President Barack Obama clarified that he was not opposed to China's Asia Infrastructure Investment Bank, reports AFP, but that a multilateral lending institution had to have strong guidelines by which to operate, as the World Bank does. Beijing has already signed up 57 founding members for the AIIB. The US is not among them, nor is Japan

## YOUMOVIE?

YouTube, Google's online video service, will make movies – a series of them – for which it has tied up with DreamWorks Animation's subsidiary AwesomenessTV. These will be feature-length films and will be released globally on YouTube, reports *The Guardian*.




## BARKING UP THE WRONG TREE?

For all its perceived ills, the land law passed by the UPA in 2013, with the BJP's support, does not deserve much blame for slowing the economy. As the Modi government fights tooth and nail to change this law, hobbled in its efforts by a farmer committing suicide at an AAP rally, *The Economic Times* reports that of the 804 projects stalled as of February this year, only eight per cent ran into problems in acquiring land. The main reasons they are stuck, as thrown up by an RTI query, turned out to be unfavourable market conditions, lack of clearances other than those related to the environment, and falling promoter interest.

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**3,000**
CUBIC METRES
That's how much it was 50 years ago

**6,000**
CUBIC METRES
That's the global average

## DREAMING AGAIN

Reports suggest that companies have been registered in Australia, New Zealand and Scotland by Subhash Chandra's Essel Group under names that sound like those of cricket boards. The ICC, world cricket's governing body, is said to be looking into domains like *worldcricketcouncil.co.in* registered by an employee of Ten Sports, part of Chandra's Zee Entertainment. Is Chandra again dreaming of carving out a slice of cricket for his group? He had started the breakaway league ICL that got overshadowed and obliterated by BCCI's IPL. Sadly, Chandra has taken the intrigue out of the developments. An Essel statement said it was looking to come back into the business of cricket and make it a global sport. Sadly, again, the group denied speculation that Lalit Modi, the IPL's architect, now a BCCI pariah, might drive Essel's new initiative. That would have been as delicious an irony as they come. Modi was the one who led the efforts to stamp out the ICL.

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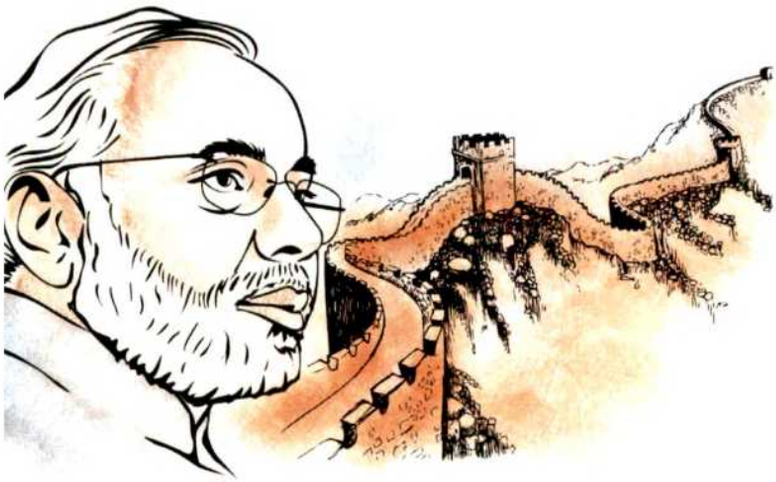

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## CHINA CALLING

**WHAT:** Modi visit to China
**WHEN:** May 14-16

**WHAT TO LOOK FOR:** Prime Minister Narendra Modi will focus on the widening trade deficit and greater market access for domestic products, including automobiles and pharmaceuticals, during his visit to China. Modi is expected to visit the ancient city of Xian, the hometown of Chinese President Xi Jinping, besides, of course, the capital Beijing. Last year, Xi had had begun his visit to India in Ahmedabad in Gujarat, Modi's home state.

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## FOCUS ON SOUTH ASIA

**WHAT:** South Asia Economic Conclave
**WHEN:** May 7-9

South Asia Economic Conclave
7-9 May 2015 • New Delhi

**WHAT TO LOOK FOR:** The Confederation of Indian Industry is partnering with the World Bank Group and the Asian Development Bank to create a high-level private sector-led forum for South Asia called South Asia Economic Conclave. The forum's objective is to stimulate informed dialogue between the private sector and government to promote regional trade and investment, which would, in turn, help catalyse higher growth and new job opportunities for all South Asian countries.

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## IN BLACK AND WHITE

**WHAT:** SIT report on black money
**WHEN:** By May 12

**WHAT TO LOOK FOR:** The Supreme Court has asked the Special Investigation Team (SIT) probing the black money case to submit a status report on or before May 12. The case will be heard on that day. Submissions from Ram Jethmalani, who is a petitioner in the case, and BJP leader Subramanian Swamy will be heard.

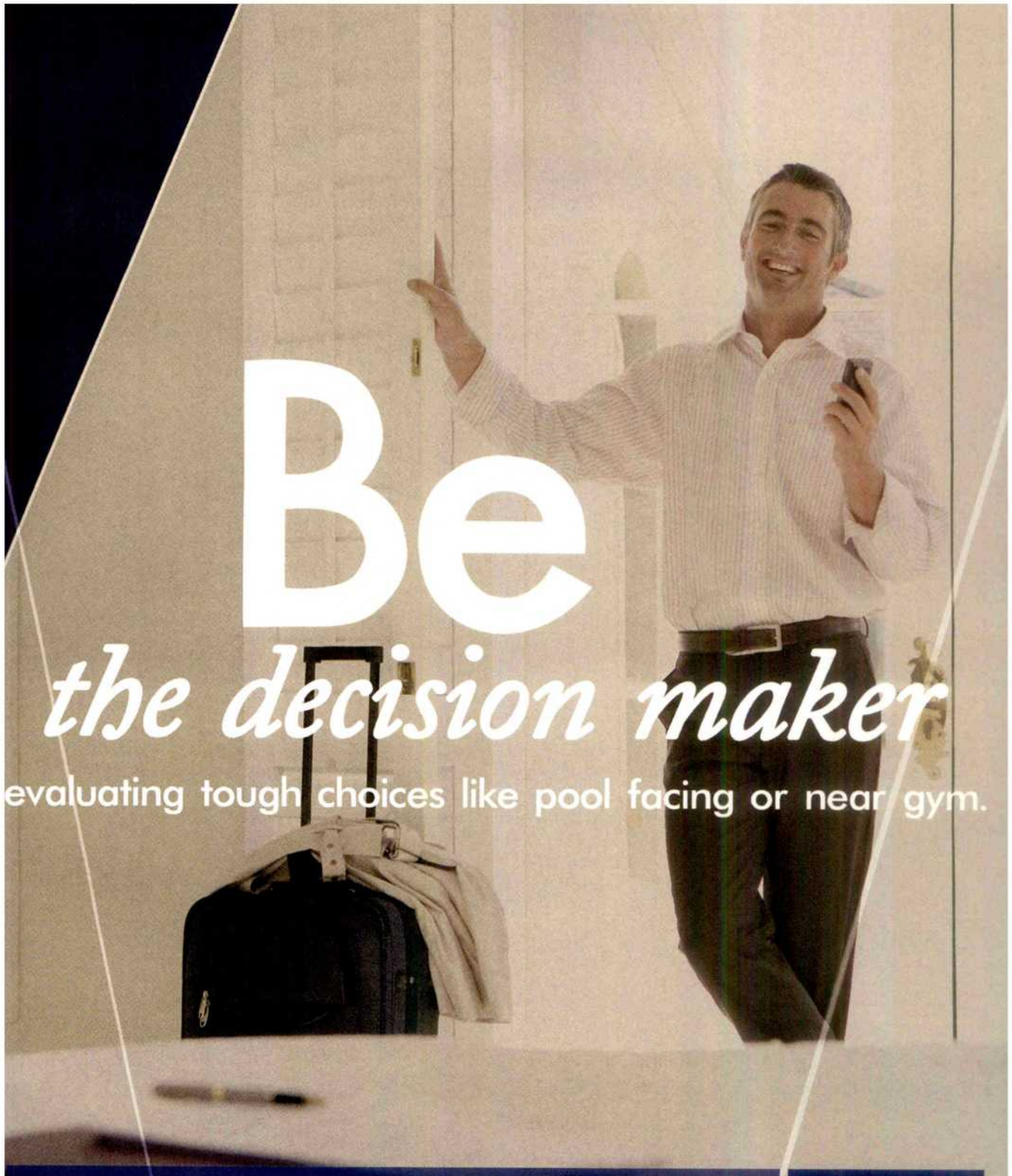
7

## YES, PRIME MINISTER

**WHAT:** Elections in the UK
**WHEN:** May 7

**WHAT TO LOOK FOR:** According to recent polling, Ed Miliband's Labour party is on a strong wicket against the ruling Conservatives, led by Prime Minister David Cameron. Infosys co-founder N.R. Narayana Murthy's son-in-law, Rishi Sunak, is leading the list of ethnic minority MPs contesting the polls. Sunak is contesting from former foreign secretary William Hague's constituency of Richmond in North Yorkshire.

RAJ VERMA

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# FOCUS


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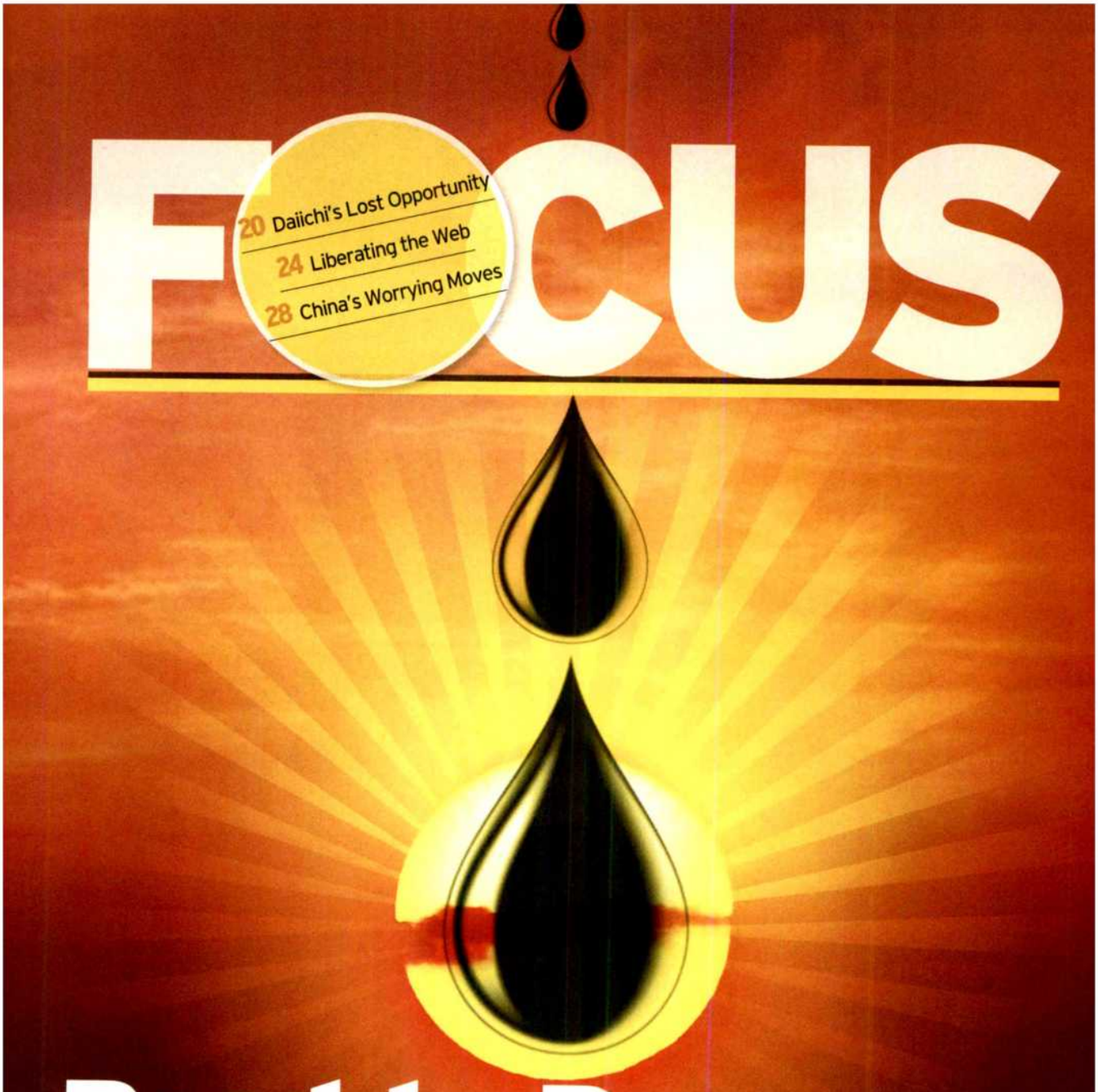


ANAND SINHA

# Road to Recovery

**India Inc reports a healthy 12 per cent growth in revenue in Q4 if we ignore the poor performance of oil and gas companies.** By RAJEEV DUBEY and JYOTINDRA DUBEY

Take out Reliance Industries, Cairn India, Petronet LNG and Gujarat Gas Company and corporate results for the quarter ended March 2015 tell you a completely different story, than with them. Oil and gas companies are the only reason why early bird results of 154 companies show an 8 per cent fall in revenue as against 13 per cent growth in the same quarter of the previous financial year. The sector has been hit by over 50 per cent fall in global crude oil prices in the last 11 months. Oil companies bore the brunt of this in the form of lower toplines.

Their performance would make you believe that the much-awaited recovery from the prolonged slowdown was a distant dream. Hold on!

Far from that, excluding the oil and gas majors

companies reported a healthy 12 per cent rise in revenue. Even the rise in profit before depreciation, interest and tax, which appears depressed at just over 8 per cent, is a far healthier 13 per cent without the oil companies.

For the entire fiscal 2014/15, too, an analysis of 226 companies whose results have been declared shows close to 13 per cent growth in topline (excluding oil and gas companies). This goes down to 2 per cent if we include the oil companies. Net profit growth for the lot, excluding the oil companies, stood at a healthy 23 per cent. But this falls to 14 per cent when oil companies' results are included.

That's a good reason for the industry to believe that the uptick in the economy is for real. "The upturn started in the October-December quarter of 2014. For us, January-March 2015 has been 10 per cent above target. The demand pick-up is sporadic, is sequentially positive, but slightly behind our expectation," says Parag Satpute, MD, Sandvik Asia, the Indian arm of the Swedish construction and mining equipment major.

The services sector has a similar trend to report. "We grew 15.5 per cent in the quarter ended March (as against 8 per cent in the same quarter last year). This is the highest growth in the past eight quarters. There is also a buoyancy in the job market," says Rohit Kapoor, Vice Chairman and CEO, EXL Service, a BPO firm.

True, India Inc is far from the healthy 20 per cent plus topline growth that was the norm a few years ago. But a lot of this has to do with the debt pile-up that is chipping away at margins through interest payout even as revenues have either stagnated or risen marginally over the past few years.

Despite the slowdown, debt of these companies continued to grow and rose 12 to 13 per cent year-on-year on account of ongoing projects and capacity expansion, or debottlenecking. Yet, it was the oil and gas sector that pulled down the results of the sample. The four oil majors which have declared their results so far have reported a 39 per cent decline in total income and 27 per cent in profit in the quarter ended March 2015.

Among other sectors, telecom did well. Three telecom companies – Bharti Airtel, Idea Cellular and Bharti Infratel – posted a 23 per cent increase in topline and a whopping 90 per cent rise in bottomline, thanks to growth in revenue from data services.

The next best performer is the BFSI (banking, financial services and insurance) sector, which posted 17 per cent growth in income and 19 per cent in net profit. Twenty BFSI companies have declared results till date. These include HDFC bank, ICICI Bank, YES Bank and L&T Housing Finance.

The five drug makers posted a 7 per cent rise in income and 73 per cent rise in net profit, though the major industry players are yet to declare results.

In the IT and ITES space, 21 companies have declared results, including Infosys, TCS, Wipro and HCL. The lot posted 9 per cent growth in income but a 9.5 per cent fall in net profit. One reason is the 25 per cent decline in bottomline of TCS due to one-time special employee reward worth ₹2,628 crore in this quarter.

Some big automobile and auto ancillary companies are yet to declare results. The sector has seen an 8.9 per cent increase in revenue and 68 per cent in net profit driven by Maruti Suzuki, which posted over 60 per cent rise in net profit. In the ancillary space, MRF Ltd posted 94 per cent growth in net profit.

These trends will cheer corporate India. However, as the bulk of companies declare their results in the coming weeks, the early trends may get subdued. The question is, how subdued will they be from the early bird results this time? ◆

*@rajeevdubey; @JyotindraDubey*

# Good Going

**Corporate earnings are finally recovering, though at a slower-than-expected pace**

| **150** companies (excl oil firms) | Q4 2014/15 | Y-o-Y growth |
|---|---|---|
| Total Income | **1,86,933** | 12% |
| PBDIT | **77,908** | 13% |
| PAT | **36,749** | 5% |
| **154** companies (incl oil firms) | Q4 2014/15 | Y-o-Y growth |
| Total Income | **2,54,435** | -8% |
| PBDIT | **88,454** | 8% |
| PAT | **31,188** | 13% |
| **222** companies (excl oil firms) | 2014/15 | Y-o-Y growth |
| Total Income | **8,07,994** | 13% |
| PBDIT | **3,13,347** | 17% |
| PAT | **1,19,405** | 23% |
| **226** companies (incl oil firms) | 2014/15 | Y-o-Y growth |
| Total Income | **11,95,481** | 2% |
| PBDIT | **3,58,714** | 12% |
| PAT | **1,44,639** | 14% |

Figures in ₹ crore; PBDIT is profit before depreciation, interest and taxes; PAT is profit after tax

Source: CMIE Prowess

AJAY THAKURI

# Lost Opportunity

## Daiichi Sankyo's India misadventure ends as it exits its investment at a huge loss. By P.B. JAYAKUMAR

**IN DOLLAR TERMS, DAIICHI HAS MADE A LOSS OF CLOSE TO 30 PER CENT ON ITS ORIGINAL INVESTMENT**

On April 21, Daiichi Sankyo announced the sale of its entire 8.9 per cent stake in Sun Pharmaceutical for ₹20,026 crore ($3.2 billion). Daiichi had got these shares in return for its 63.4 per cent stake in Ranbaxy Laboratories that it had sold to Sun last year.

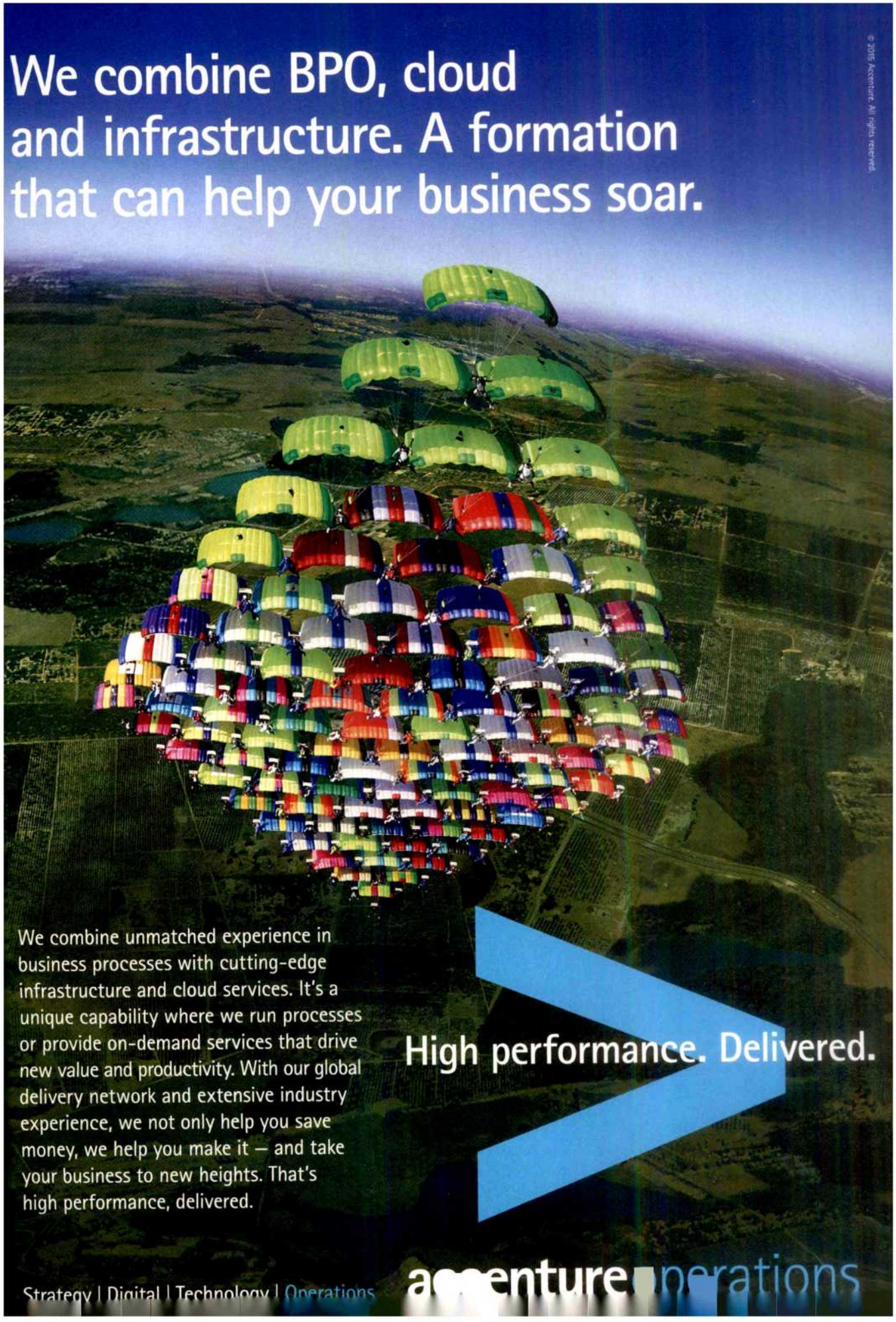
This ended Daiichi Sankyo's troubles in India, a market it had entered in 2008 by buying a majority stake in Ranbaxy. The deal went bad for the Japanese drugmaker after US regulators charged the Indian company with malpractices.

Was Daiichi's India foray profitable? On the face of it, the Japanese company did make a small profit. In June 2008, it had paid ₹19,803 crore for a 63.4 per cent stake in Ranbaxy. This means it made a profit of ₹223 crore considering that it got ₹20,026 crore in the end.

When Daiichi bought Ranbaxy, the dollar was at 42.74 against the rupee. So, in dollar terms, Daiichi has suffered a loss as the rupee has fallen 47 per cent against the greenback in seven years since it bought Ranbaxy and was at 62.85 the day it exited Sun Pharma.

"Considering the $4.6 billion paid for the promoter's stake in Ranbaxy, Daiichi incurred a 30 per cent loss on its investment," says Surajit Pal, analyst, Prabhudas Lilladher, a stock brokerage

The yen was at 119.54 to a dollar on the day of the latest deal. In 2008, it was at 106.81. So, in yen terms, too, Daiichi has made a loss. The proceeds of ¥380 billion ($3.2 billion) are less than the ¥487 billion it had paid to Ranbaxy's promoters in 2008 ($4.6 billion multiplied by 106.81).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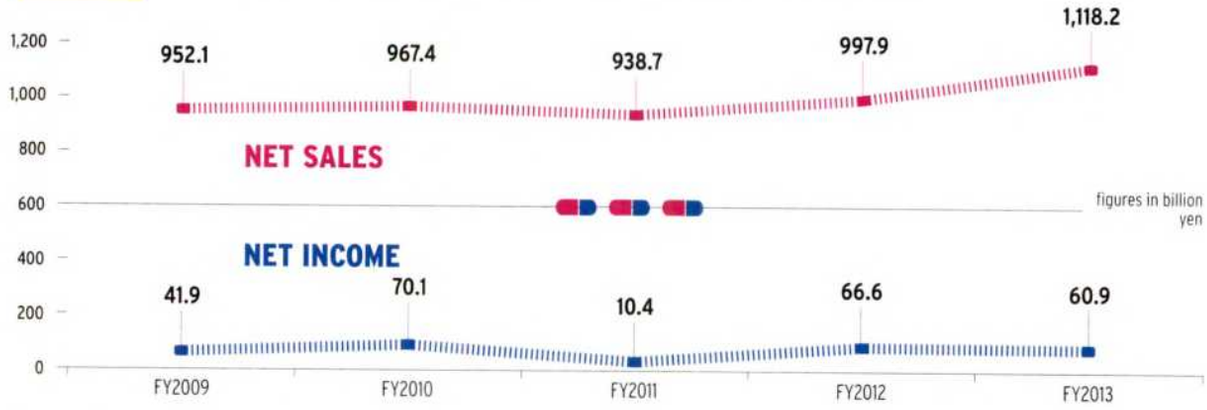
## PRESSURE POINT

Daiichi has been struggling ever since its purchase of Ranbaxy in 2008




Daiichi said on April 28 that it would book extraordinary losses of ¥46.2 billion (₹2,463 crore) in its non-consolidated financial results for 2014/15 on sale of investment securities of Sun Pharma. It said there would be no impact on profit attributable to owners in consolidated financial results for 2014/15 as the loss would be recorded under "other comprehensive income".

Analysts say Daiichi would have hedged its investments and that could have been factored in while exiting in spite of the rally in Sun Pharma shares.

After the conclusion of the merger between Ranbaxy and Sun Pharma on March 26, Daiichi had said ¥338 million (before tax) would be accounted as profit margin from the exchange of shares.

For Daiichi, the exit from India is an opportunity lost in an industry where toplines are growing 15 per cent a year on average and margins are 15 to 20 per cent. But Ranbaxy was a disaster for Daiichi; it posted net losses of ₹879 crore, ₹162.34 crore and ₹3,052.05 crore, respectively, in the past three financial years.

**FOR DAIICHI, THE EXIT IS AN OPPORTUNITY LOST IN AN INDUSTRY WHERE TOPLINES ARE GROWING AT 15 PER CENT A YEAR**

In fact, Daiichi has lost more money than these numbers suggest. The acquisition had put a lot of strain on its balance sheet. In 2008, it reported a net loss of ¥215.5 billion owing to a ¥351.3 billion writedown of goodwill related to the acquisition.

Thereafter, sales were flat and profits meagre, largely due to losses at Ranbaxy. In 2008/09, Daiichi's profits were only ¥42 billion because of extraordinary losses due to writeoffs. In 2011/12, profits improved to ¥66.6 billion. The figure would have been higher if Daiichi had not suffered an extraordinary loss of ¥37.9 billion due to a consent decree agreement and payment of a $500 million fine to the US Department of Justice for Ranbaxy's wrongdoings.

Daiichi's decision to exit Sun Pharma is also linked with the other crises it is facing. Its largest revenue earner, the blood pressure drug Benicar, will lose patent protection next year. It had sales of $2.6 billion last year. It contributes nearly 27 per cent to revenue. Also, Daiichi's blockbuster cholesterol drug, Welchol, is losing patent protection in June. Reports say the company is already reducing staff at its US offices to cut losses. Also, another acquisition after Ranbaxy, an R&D company in the US, is not expected to yield much revenue in the near future. Daiichi is now reported to be targeting the Chinese market to make up for its failed India entry.

Above all, Daiichi's global ambitions have taken a back seat. It was hoping to use Ranbaxy's marketing strength in almost 170 countries to sell its drugs under a 'hybrid model' (selling Ranbaxy's generics and its own patented drugs).

All in all, it was a forgettable experience for Daiichi, which did not realise the gravity of problems at Ranbaxy when it bought the then India's largest drug company.

Daiichi's lessons are valid for all companies venturing into the unknown territory without looking at the realities on the ground. ◆

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# Liberating the Web

## The apex court saves the Internet companies from the arduous task of monitoring online content and also preserves freedom of speech. By MANU KAUSHIK

AJAY THAKURI

**IT IS EXPECTED THAT THE NUMBER OF INTERNET USERS IN INDIA WILL REACH 580 MILLION IN 2018, UP FROM 300 MILLION IN DECEMBER 2014**

Indians are increasingly uploading pictures, videos and opinions on various online platforms. Till recently, the Internet companies – led by Google, Facebook and Twitter – were required to closely monitor these posts for unlawful or "objectionable" content. Indeed, Section 79(3)(b) of the Information Technology Act required online companies to remove content on their platforms as and when aggrieved parties notified or complained about such content. But acting upon a large number of complaints is not easy. It comes with a cost and is time consuming. The Internet companies, saddled with this additional role, decided to move the Supreme Court last year seeking relief. The apex court recently ruled in their favour and asked them to take down posts only when they are presented with a court order.

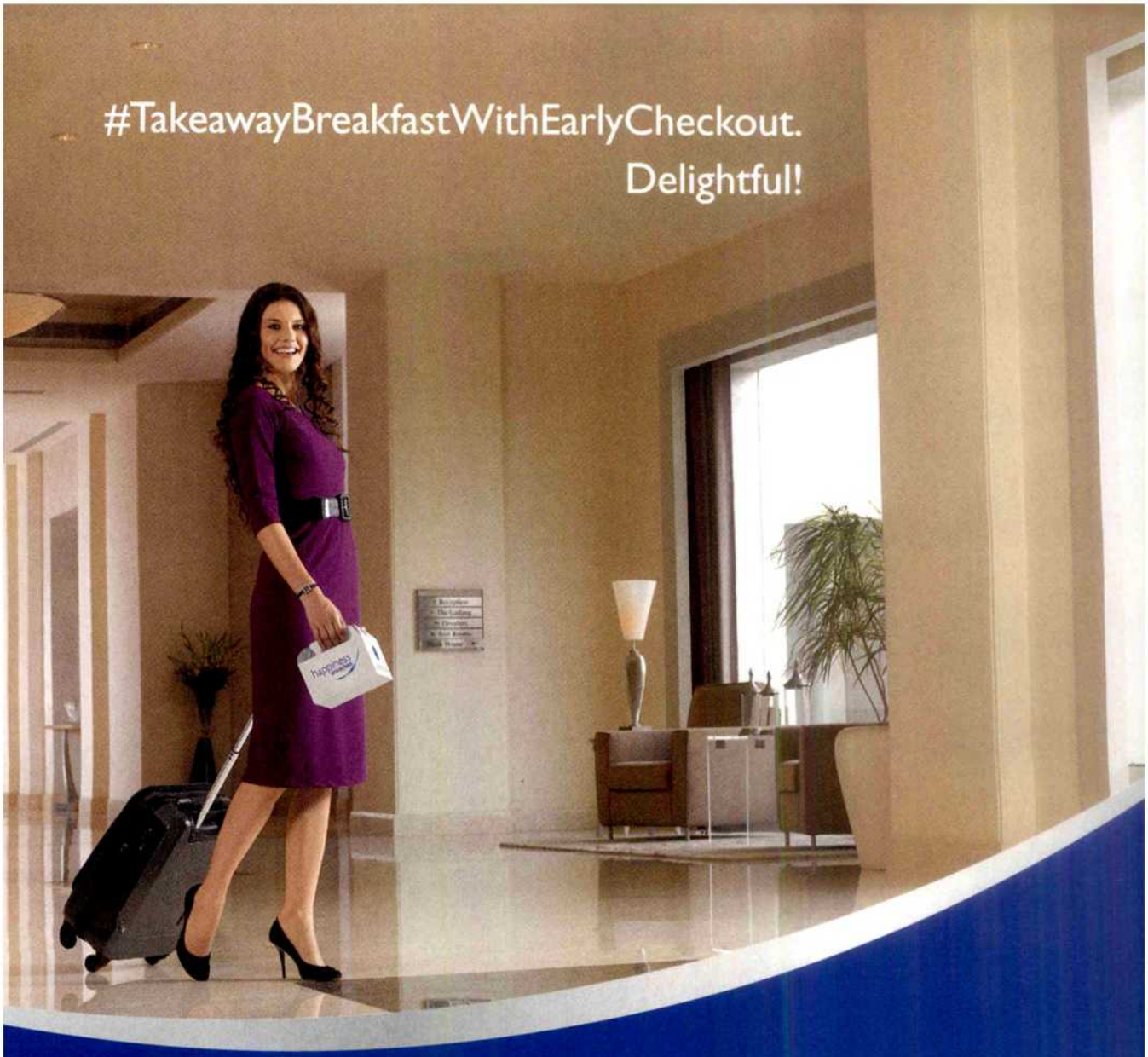
While people are busy talking about the scrapping of Section 66A, the dilution of Section 79 (3)(b) will have a major impact on the Internet companies. Earlier, while the Internet companies used to remove "objectionable" content on receiving a complaint, they were also liable for damages – along with the user posting such content – if the issue was not resolved within a month.

The recent directions of the court have stated that in future the complainant would have to show a court order – instead of just a legal notice – to the Internet companies for removing the allegedly unlawful content. "... it would be very difficult for intermediaries like Google, Facebook, etc., to act when millions of requests are made and.... then to judge as to which of such requests are legitimate and which are not. We have been informed that in other countries worldwide this view has gained acceptance, Argentina being in the forefront," says the court order. It will save the Internet companies from the arduous task of reacting to a huge number of complaints.

"We argued that it is unconstitutional and prevents freedom of speech. In a way, the Internet companies were forced to perform court-like functions," says Saikrishna Rajagopal, counsel for the Internet & Mobile Association of India (IAMAI). The apex court also ruled that the court order directing removal of content could only be on the basis of the specific grounds enumerated under Article 19 (2) of the constitution, which allows the state to impose reasonable restrictions on freedom of speech and expression in the public interest.

It is expected that the number of Internet users in India will reach 580 million in 2018, up from 300 million in December 2014. Clearly, the court order will not only save the Internet companies from the extra cost and time involved in monitoring content from the swelling ranks of users, but will also go a long way in preserving freedom of speech and expression in cyberspace. ◆

@manukaushik

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# Footing the Bill

## How governments are coping with the economics of providing free Wi-Fi in entire cities. By MANU KAUSHIK

It is believed that election promises are not given much thought. When the Aam Aadmi Party (AAP) said in its manifesto for Delhi elections that it would provide free Wi-Fi services in the city, it became a talking point.

AJAY THAKURI

Three months after coming to power, the government is yet to deliver. Recently, Adarsh Shastri, parliamentary secretary to the state IT minister, said around 700 Wi-Fi hotspots would be set up by February 2016. The entire city would be covered in two years, he said.

It seems the government is still trying to figure out the economics of providing free Wi-Fi in the entire city. This is because it is very different from providing the service in smaller areas such as restaurants, colleges, hospitals, markets and transit zones such as airports and railway stations.

Take Indian Railways. Last year, it set a target of providing Wi-Fi at 400 railway stations. Telecom operator MTS India has rolled out Wi-Fi hotspots in six stations where each traveller can use Internet for 30 minutes a day free of charge. MTS is bearing the entire cost. "The idea is not to look for returns. We want people in high-traffic areas to experience our services. This is like FMCG companies giving free samples," says Ashwani Khillan, CTO, MTS India.

**WHILE A WI-FI HOTSPOT COSTS OVER ₹35 LAKH, COVERING THE ENTIRE CITY MAY COST ₹300 CRORE**

For smaller projects, Indian operators have to take a different approach, says Sanjeev Sarin, founder of Ozone Networks, a Wi-Fi service provider. For instance, in the US, McDonald's, Starbucks and Subway pay operators for Wi-Fi services on their premises. In India, the entire investment – hardware, broadband connection and maintenance – is done by the service provider.

Ozone, which also runs a free Wi-Fi service at Mumbai airport, says consumers can access free Internet up to a certain speed, 512 kbps, and have to buy packs for higher speeds. "There is no such thing as a free lunch. We have to find a way to make money," he says.

Experts say the Delhi government has realised that the free model is not sustainable over the long term. While a Wi-Fi hotspot at a metro station would cost over ₹35 lakh, covering the entire city might cost around ₹300 crore. The government has two options. Either it spends from its own pocket or asks a service provider to invest. The earlier option will put a burden on the exchequer. There will be recurring costs as well.

Unless there's a strong business model, no private operator will make such a big investment. Global examples of free Wi-Fi in entire cities are limited. Seoul, Paris, Taipei and Helsinki have been offering it for a couple of years but London and New York don't have city-wide free public Wi-Fi networks.

There are ways to monetise networks spread over entire cities. For instance, in Delhi, the private company offering free Wi-Fi can be allowed to provide broadband services at homes for making money. It can also charge private utilities or government agencies for using their bandwidth.

With mobile networks congested and people demanding higher browsing speeds, Wi-Fi networks are a way forward. Their future depends upon how companies and governments get the economics right. ◆

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# Worrying Signals

## China's growing investments in Pakistan could prove to be a headache for India. By ANILESH S. MAHAJAN

GETTY IMAGES

**Joining hands:** Chinese President Xi Jinping (L) with Pakistani PM Nawaz Sharif

Recent pictures of the Chinese President Xi Jinping's aircraft being escorted by eight made-in-China Pakistani JF-17 Thunder fighter jets as it entered the Pakistani airspace reflect the expanding relationship of the two countries. On his two-day visit to Islamabad in April, Xi committed $46 billion of investments in Pakistan. This is roughly three times the foreign direct investment Pakistan has received in the last decade. This is also more than the $31 billion Pakistan got in US aid since 2002, according to the US-based Congressional Research Service. Clearly, Xi's visit has larger geopolitical ramifications. And for India, it could be a cause for concern.

The investment would go into building the China-Pakistan Economic Corridor. This would include a road connecting Gwadar port in Balochistan with Kashgar in Xinjiang province of China via Pakistan-occupied Kashmir. The 3,000-km corridor would have industrial parks and 10.4 GW of power projects worth $15.5 billion. China is already upgrading the 1,300-km Karakoram Highway despite Indian opposition. The highway, being built by state-owned China Road & Bridge Corporation, is expected to be ready by September this year. China's help in developing infrastructure in the disputed part of Kashmir is seen as its support to Pakistan's claim on this region.

Another reason to worry for India is that China has the rights to operate the Gwadar port, which increases Beijing's influence in the Arabian Sea. The new road and the Gwadar port would help China boost trade with Europe, West Asia and Africa. This will also give China easier access to West Asian oil, especially from Iran. China is one of the biggest consumers of Iranian oil and this route would help it transport oil before it completes a pipeline from Gwadar to Kashgar. Beijing is also helping Islamabad complete the Iran-Pakistan gas pipeline at a cost of $2 billion.

The growing engagement between China and Pakistan may prove to be a stumbling block for India's ambitious plans to boost ties with Afghanistan and Iran. India had committed $100 million to develop the Chabahar port in Iran, but the project is stuck. The port is important for India to access Afghanistan by bypassing Pakistan. Islamabad has already rejected New Delhi's proposal on the SAARC motor vehicle pact that would have allowed seamless transit to vehicles from South Asian countries. Pakistan's refusal makes it impossible for Indian transporters to use the land route to Afghanistan. Prime Minister Narendra Modi, on April 28, told the visiting Afghan President Ashraf Ghani that India was ready to receive Afghan trucks at the Integrated Check Post at Attari, on the India-Pakistan border. But that won't be enough.

Meanwhile, the infrastructure projects Chinese companies are executing in Pakistan will allow free movement to vehicles of the two countries. And while China's relations with India are also improving – Xi visited India in September last year and Modi is heading to China in May – New Delhi will still be wary of Beijing's growing clout in the region.◆

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WHAT'S TRENDING

# SoS Social for Relief

As the earthquake ripped through Nepal, social media gave rise to a new term: digital humanitarianism.

By **CHITRA NARAYANAN**

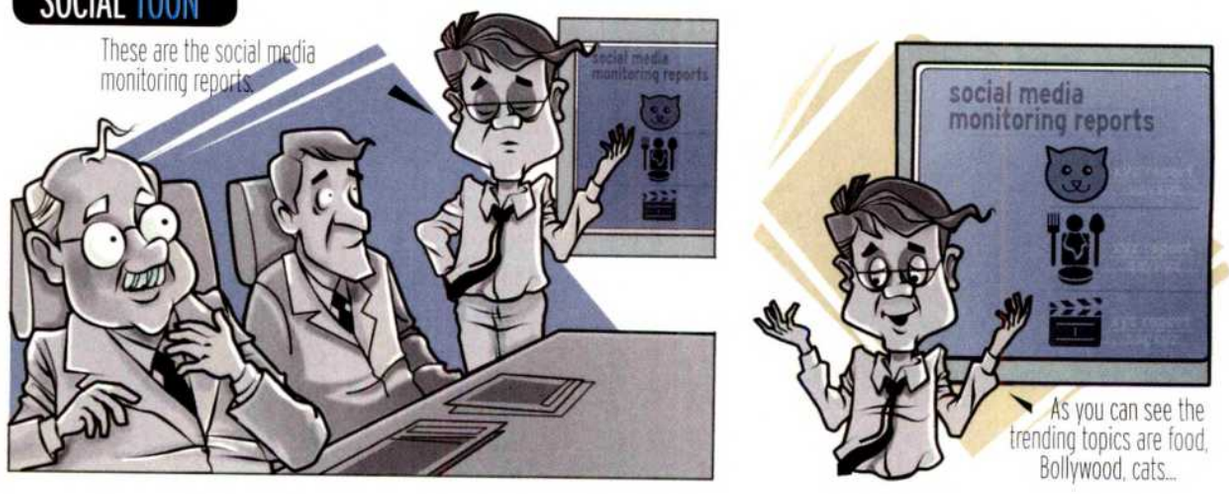
GETTYIMAGES

Calamities have always united people. It's amazing how disparate groups of people just band together spontaneously to provide relief when disaster strikes. In the old days, the process of banding together took time. Today, social media acts as an instant bridge, connecting people in a matter of seconds. In fact, digital humanitarian networks are the new buzzword.

During the Nepal earthquake, as phone lines jammed, Facebook activated its Safety Check feature in large parts of Nepal, and certain areas of Bangladesh, India and Bhutan. Within 24 hours, millions of people were marked safe, and the safe notification popped up on the timelines of friends and family. It also was quick to activate a Donate button, whereby users could donate directly to International Medical Corps, a global relief agency.

For Facebook, the journey to building the Safety Check feature began in 2011 when Japan was devastated by a tsunami. In a blogpost, three Facebook employees – Naomi Gleit, Vice President of Product Management, Sharon Zeng, Product Manager, and Peter Cottle, Software Engineer – describe how FB's engineers set out creating a tool after they noted how people in Japan used technology and social media to stay connected with those that they cared about during the deadly tsunami. The initial result was a

SOCIAL TOON



Disaster Message Board. Over time this project evolved into Safety Check.

It's not just Facebook. There was Google with its Person Finder tool, first launched in Haiti, during the 2010 quake, that pitched in. For Google there was a personal tragedy involved, as one of its executives Dan Fredinburg, got caught in an avalanche while attempting to climb Mount Everest. His sister reported his death on Instagram.

Meanwhile, both Twitter and Instagram acted as news sources – with live stories from those caught in the quake flashing in. Also handles like *@InCrisisRelief* run by team VOICE (Volunteers Online for Impact in Crisis and Emergencies) provided valuable resources like helpline numbers. Uber, Viber, Firechat – a lot of networks were out there pitching in with information and help.

There was, in fact, so much action on the social networks that people were grappling to understand how to use it effectively, prompting social media resource portal Social Samosa to conduct a tweet chat. Some takeaways from the panel and from an academic paper by Erica Goldfine on *The Use of Social Media Throughout Emergency and Disaster Relief* are:

◆ Use social media as an effective communication tool: For governments, survivors, people seeking information on loved ones, social media platforms are the quickest channels to communicate.

◆ Look up mapping resources: Whenever disasters strike, platforms like Ushahidi, OpenStreetMap, and Google Map Maker have instantly got activated with digital volunteers trawling through satellite imagery and identifying spots where relief has to be reached. From pointing out which roads are navigable to providing information on where hospitals are located, the digital maps are a resource that have saved lives, thanks to the speed with which on ground volunteers can reach the spot using them.

◆ Use as a bridge between NGOs, volunteers and givers: Often, people would love to chip in during emergencies but do not know what to give or how to give. During the Nepal quake, one could see appeals for water, tents, tarpaulin, flashing through social platforms. ◆

*@ndcnn*

AJAY THAKURI

## LISTENING POST

### Snapchat Stories

Twitter, the go to place for breaking news, better watch out! Snapchat, the happening photo messaging app, is now moving aggressively into news. According to US magazine *Politico*, Snapchat has just headhunted CNN's national political reporter Peter Hamby to become its Head of News. In January, Snapchat had launched Discover, a news feature with curated stories from its partners like CNN and Vice. It also gets a wealth of user-generated live stories from around the world that it can leverage. Now here's one more reason to join the snapchatting crowd.

### Get the Picture

Facebook is on a roll. It has just announced a video calling feature to its Messenger app. The experience promises to be seamless enough for users to switch from texting to video call within the app itself. This feature comes close on the wings of Messenger's voice calling addition. FB has been enhancing the Messenger app through a string of new features lately, and during its annual F8 conference even threw open the app to developers. Clearly, more features will be on the way soon.

### Instagram Tunes in

Photo sharing network Instagram is making musical overtures with its first content vertical. The Facebook-owned social network has just created a community devoted to music accessible through the handle *@music*. A quarter of the most popular accounts on the network are created by musicians and hence, the idea was sparked to create this vertical. It promises to have everything from video music lessons to gigs by unsung artists to a communication platform for celebrity musicians to connect with fans. Play it on!

# Should the Rupee

By HARISH H.V.

## Move forward but with caution

India has been moving from a regime of extreme capital controls to a much liberalised foreign exchange regime in a calibrated manner. The rupee is partially convertible whereby some capital account transactions are freely permitted, some allowed within parameters like sectoral caps and a few transactions remain prohibited. Partial convertibility has provided a balance between control and liberalisation, and has paved the way for a stable economy over the last 15 years.

Today we are hearing a lot of buzz on moving toward full convertibility which includes capital account convertibility (CAC). The arguments in favour of CAC are many; from making an economy globally competitive, to fuelling growth by increasing investment, to creating confidence in the global marketplace. Almost all developed economies have had full convertibility for several decades. Over the past 25 years, various emerging markets have been moving toward CAC with Latin America leading the way. Peru has full liberalisation while Argentina, Brazil, Chile and Mexico are largely liberalised. Morocco, Nigeria, Egypt, Pakistan, and South Korea, among others, have achieved a large degree of convertibility.

In most of these cases, the initial move towards convertibility saw a huge outward flight of capital with concomitant effects on currency volatility and inflationary trends but, over three to five years, inflows matched the outflows and they achieved some stability in forex reserves.

In India, the move toward currency liberalisation started in 1991 when the country was facing a balance of payment crisis. The call for full CAC is now gaining strength. Some of its advantages can be summarised as follows:

**For companies:** Companies face a number of challenges in moving across borders; whether it be raising debt, investing overseas, doing M&A globally and even some trading transactions. Full CAC will allow them to match global competitors in terms of structuring their business, raising funds, and transferring resources to where they are required.

**For individuals:** Individuals have a number of restrictions in moving money for legitimate reasons of education, health or even investment. Full convertibility will give them huge flexibility of owning assets and incurring expenditure for their needs.

**For the economy:** With the skewed balance of trade position and our dependence on critical imports, full CAC is expected to bring about additional inflows that ensure an overall surplus balance of payments. It is also a strong signal to the global markets that India is now a free trade economy and the economy has achieved scale and strength to go for full convertibility, and that itself will increase investors' confidence and should result in significant capital inflows.

It must be cautioned, however, that the costs associated with the move need to be evaluated carefully. The global crisis of 2008 showed the weaknesses of the control-free currency policy. India was fairly insulated during the period due to its controls and monitoring system.

Any move towards full convertibility could potentially result in an outflow of capital in the short run, creating a drain on our forex reserves. Uncontrolled inflows and outflows will also cause high rupee volatility. Also, unbridled overseas borrowings by companies could lead to payment defaults. Companies may end up taking risks beyond their capability due to their lack of understanding.

In conclusion, while full CAC is desirable as a long-term objective, it is not a magic potion as proved by the China success story. To ensure that convertibility does not become a recipe for disaster, strict macroeconomic controls are needed coupled with a strong monitoring system and fiscal discipline. The Indian model of partial convertibility and calibrated movement toward full CAC has worked. ◆

***Harish H.V.*** *is Partner at Grant Thornton India*

# be Fully Convertible?

By GAURAV GUPTA

## It can be risky at this juncture

What did radically transform at the Reserve Bank of India between April 15, 2012, and April 10, 2015, to take a diametrically opposite view on full capital account convertibility (CAC), that too in a country as ill-prepared as ours? Was Governor Raghuram Rajan misquoted or quoted out of context as he was talking to students and explaining the basics of monetary policy and other concepts. Or perhaps, being an academic of his stature, he was floating a discussion idea. But the debate is on.

We cannot also ignore Union Minister of State for Finance Jayant Sinha, who stated that "definitely we have to play our rightful, responsible role in the global economy, and to do that we have to move in the direction of CAC".

To put things in perspective, Rajan's predecessor, Duvvuri Subbarao, on April 15, 2012, spoke against CAC, while Rajan on April 10, 2015, after the paper-launch of the International Financial Services Centre (IFSC) in Ahmedabad, expressed optimism that any resident citizen could convert his rupees into dollars or any other currency at will "in a very few short years", which is what CAC means.

Rajan did not elaborate on the merits or demerits of such a step, but Subbarao was very vocal against CAC with specific reasons. Subbarao advocated a gradual move towards CAC only after preconditions like fiscal consolidation and current account surplus are met. "There is no evidence the world over that CAC, regardless of macroeconomic circumstances, has been a positive force... on the contrary, evidence suggests that premature capital account liberalisation can create macroeconomic imbalances with huge costs to growth and welfare," he had said.

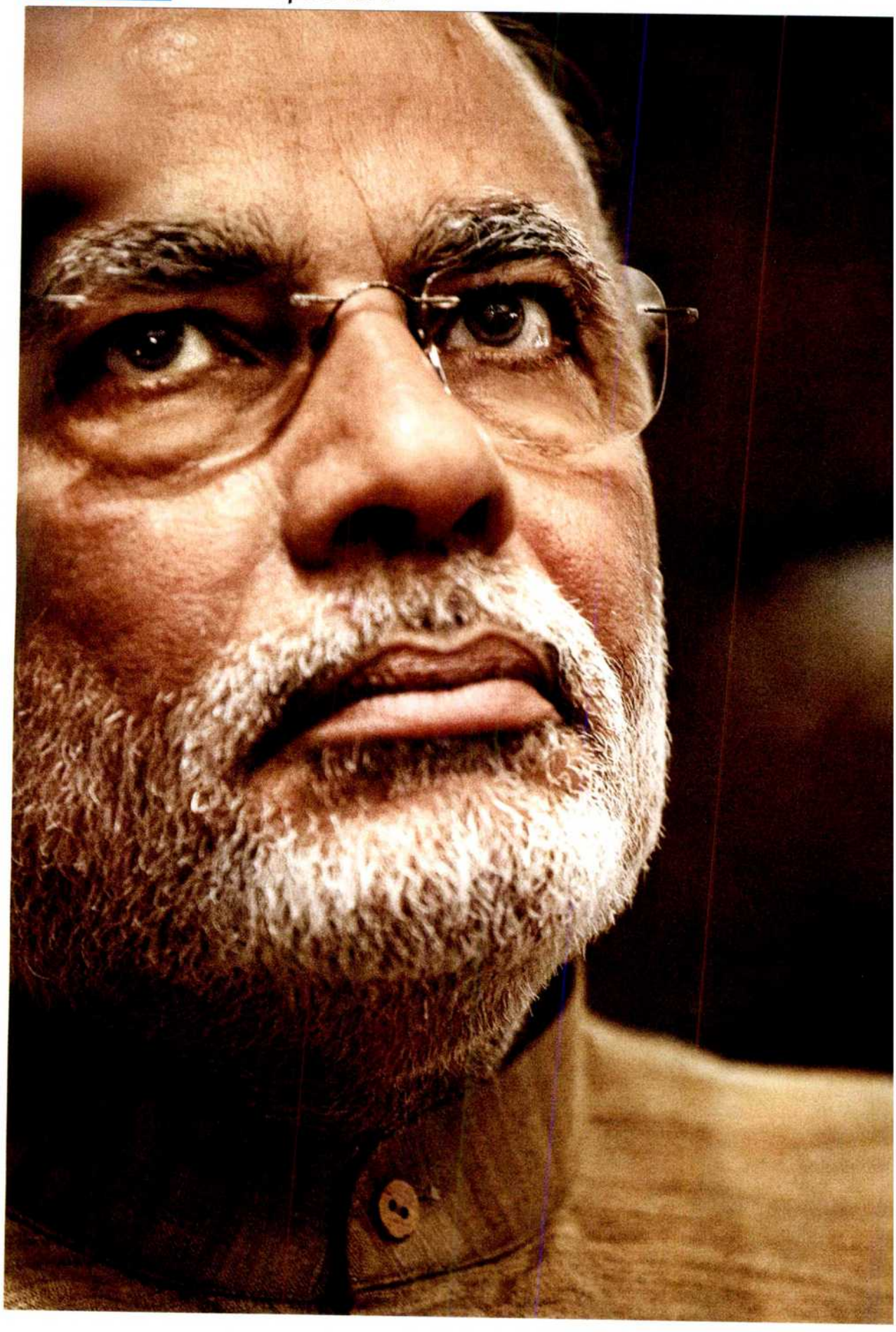
To me, there are more reasons to say CAC, at this juncture, could be risky for India. Our combined fiscal deficit is a shade below eight per cent with the Centre's alone at 4.1 per cent in 2014/15. We have a history of running high current account deficit (one per cent of GDP in 2014/15 is due largely to a 65 per cent fall in crude prices), and our import cover is low – at six-and-a-half months with $343 billion in forex reserves. We heavily depend on hot foreign funds to bridge the current account deficit, the trade deficit is widening, we have a fundamentally weak rupee whose strength is mostly determined by the quantum of fund inflows, and we have structurally and fundamentally weak banks with a whopping 12.5 per cent of their assets being dud loans – the list of inclement conditions far outweigh those of conducive situations for CAC.

Moreover, the memories of the plight of the East Asian tiger economies, especially those with full CAC during the 1997-99 currency crisis (we were unscathed with $1 billion in outflows, thanks to our capital controls) should restrain the very thought of CAC. From being a votary of CAC, the IMF now supports selective capital control as the Asian crisis began one year after the then IMF chief Michel Camdessus sought full CAC for all its members. If China, with close to $4 trillion in forex reserves and close to half-a-trillion dollars in current account surplus, and all other economic muscle, is averse to CAC, can we think of CAC? After all, the hottest money in our country is not FII funds, but the rupee. Our insecure psyche will see us convert all our rupees into dollars and empty our meagre forex reserves pronto.

It is a little too ambitious to say that a formal launch of an IFSC can elevate us into a global league. CAC at this juncture can spell bad times for our economy, if we do not get the above-cited inclement conditions corrected before.

After all, our decades-old selective capital control methods – full convertibility on current account and partial on capital account – has stood us in good stead during and after the 1997-99 Asian crisis. If the existing controls are not broke, why should we think of CAC now? ◆

**Gaurav Gupta** *is Managing Director and Head, Macquarie Capital India. Views are personal.*



ROHIT CHAWLA

# Candidate Modi Vs PM Modi

Candidate Modi generated hope at home and scepticism abroad. For Prime Minister Modi, who completes a year in office on May 26, the reverse may be true.

By SHWETA PUNJ, ANILESH S. MAHAJAN & DIPAK MONDAL

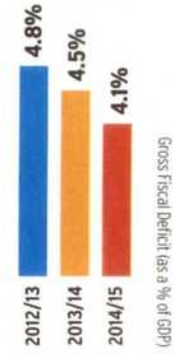
Close your eyes and think of Narendra Modi over the last one year. What comes to mind? No, not chest thumping and the roar of the election campaign and victory – that was all Candidate Modi. After that? Too many images? Here, let's help you sort them out.

The country's economy has acquired a new sheen since Modi became Prime Minister and installed Arun Jaitley in the finance ministry. The numbers suggest that something magical has happened. In fact, at the Peterson Institute for International Economics in the US on April 16, Jaitley stopped just short of saying that. However, if you look elsewhere, you are likely to end up very confused. But let us first bask in the numbers.

Presenting a list of the Modi government's accomplishments at Peterson, Jaitley said the audience would have given a cynical laugh if, as a thought experiment, it had been told in late 2013 that all this would be accomplished so soon. The accomplishments he listed are indeed impressive.

**1**

**Fiscal Deficit:** Contained with the help of spectrum auction and disinvestment proceeds



ROHIT CHAWLA

# "IF WE THINK HOW GRIM THE SITUATION LOOKED LESS THAN TWO YEARS AGO, THE TRANSFORMATION COULD NOT BE MORE DRAMATIC"

**ARVIND PANAGARIYA,** Vice Chairman, Niti Aayog

- CPI inflation down to five per cent
- Current account deficit at 1.7 per cent of the GDP
- Growth starting to accelerate to over seven per cent
- Diesel prices deregulated
- Formula fixed for pricing natural gas
- The world's largest programme of financial inclusion successfully implemented
- Agreement secured on the GST
- Bills passed to reform coal and mining and open up insurance
- A budget passed which reinvigorates growth by emphasising public investment while maintaining fiscal discipline
- Direct benefit transfers being implemented based on what the Economic Survey has called the JAM (Jan Dhan Yojana, Aadhaar, and mobile number) trinity
- The word "scandal" has ceased to be part of popular discourse because major resources like spectrum and coal have been transparently auctioned
- Land acquisition Bill being modified to reduce the cost of doing business

All true. But the incantation was more luck than magic. The sharp, unforeseen fall in global crude oil prices accounts for much of the gains on the fronts of inflation, current account deficit, foreign exchange reserves, and subsidies.

Some of the progress in financial inclusion and targeting of subsidies is a carryover from the UPA regime. The land acquisition Bill is still a work in progress, a painstaking one whose troubles are manifested in a farmer's suicide at an AAP rally.

"Inflation coming down from 11 to five per cent is a major achievement – how much of that can be attributed to policies or luck is debatable," says Samiran Chakraborty, Head of South Asia Macro Research, Standard Chartered Bank.

Modi supporters believe that export restrictions on certain farm commodities and a crackdown on hoarding helped rein in food prices.

## Economic Turnaround?

For all the luck, this does not quite feel like a 7.5 per cent economy. The fourth quarter results did not match the expectations of many analysts. The excise duty collection, the proof of the Make in India pudding, has grown just 1.5 per cent of the GDP. Revenue collection, at 9.9 per cent of the GDP, has fallen short of budget estimates of 10.6 per cent. Indeed, the core sector – coal, electricity, crude oil, natural gas, steel, cement, fertilisers, and refinery products – shrank 0.1 per cent in March. And this was despite the six and five per cent growth seen in the coal and fertiliser sectors, respectively. Exports, too, have refused to perk up to match the upbeat sentiments Modi brought with him, contracting marginally in 2014/15.

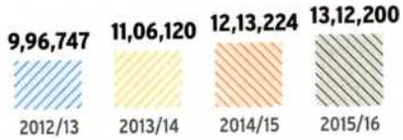
The labour bureau has given out dismal jobs data. Employment generation in eight crucial sectors during October to December was the slowest in three quarters – a mere 117,000 jobs were created against the more than three million jobs seekers that would have entered the market in those three months.

*The barometer shows the performance of the Modi government on a scale of 1 to 100*

**2** **Tax Revenue:** The Modi government struggled to boost collections in a sluggish economy

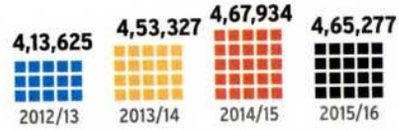
Data for 2014/15 are revised estimates in ₹ billion

**3** **Non-plan Expenditure:** Rose significantly despite Arun Jaitley's attempt to rein in non-productive expenses



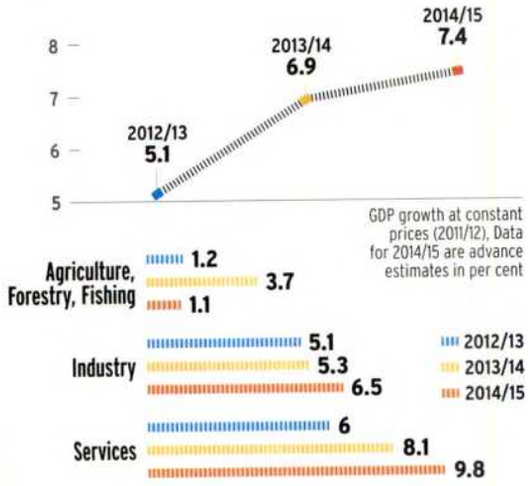

Data for 2014/15 are revised estimates and those for 2015/16 are budget estimates in ₹ crore

**4** **Plan Expenditure:** The government cut over ₹1 lakh crore from the budgeted Plan year to trim the fiscal deficit




Data for 2014/15 are revised estimates and those for 2015/16 are budget estimates in ₹ crore

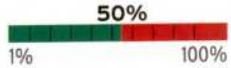
**5** **Economic growth :** Agriculture remains a source of concern




All this merely gives legitimacy to the naysayers, who argue that the jump in economic growth is merely a result of the Central Statistical Organisation's move to change the base year and jettison factor cost for market prices.

The Budget, as Jaitley said, does indeed lean towards public spending on infrastructure, but it also allowed a slip in the fiscal deficit target from 3.6 to 3.9 per cent. Worse, as former finance minister P. Chidambaram pointed out, this elbow room is not being used to push plan expenditure, which is the productive stuff that builds assets.

Of course, not everyone is a naysayer. "If we think how grim the situation looked less than two years ago, the transformation could not be more dramatic," says Arvind Panagariya, the Indian-American economist who has been appointed the Vice Chairman of National Institution for Transforming India.




## Hand-wringing Industry

Candidate Modi was always a big hit with Big Business. They used to come in hordes to the Vibrant Gujarat Summit and lavish unqualified praise on Modi and his style of working. Modi's little text message to Ratan Tata, inviting him to set up the Nano factory in Sanand amid the turmoil in Singur, has been talked about so many times it is a modern corporate legend. Against that backdrop, what Tata said recently sounds discordant.

"All of us should understand that it's a new government, and we need not get disillusioned and dissatisfied so fast," Tata said during the convocation at the Mumbai International School of Business Bocconi. "There's a great deal of hope in the inspirational leadership of Modi... The implementation hasn't really taken form this year. But we still have to give him the opportunity to implement what he has promised."

Obviously, Tata had spotted the rising disillusionment among his peers, not least in the statements of HDFC Chairman Deepak Parekh, Marico Group's Harsh Mariwala, and the new CII President Sumit Mazumder.

Tata's is always an influential voice, but some people have a business to run. "I have not seen one thing on ease of doing business," says Rafeeq Ahmed, Chairman of the shoe exporter Farida Group, which employs 17,000 people. "On the contrary we are now being asked to prove that the goods have landed in the export country. I never had any expectation, I have been doing business in India for 55 years. But they gave us hope."

Khalid Khan, who exports diesel engines and auto parts to 22 countries, complains about the recent demand from the customs to submit bank realisation certificates from 2004-2014. "We were not given any time to comply with the notice. They want us to put a landing certificate online, but the site does not have the provision for it. We

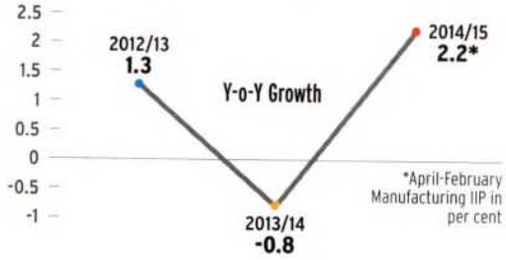
**6 Exports:** A lacklustre global economy took its toll

In ₹ crore

**7 Imports:** Remained subdued in value terms due to a fall in global oil prices

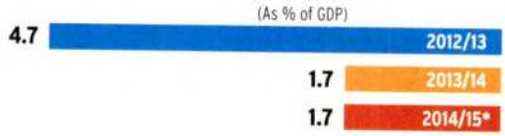
In ₹ crore

**8 Manufacturing:** It rebounded but growth was still in low single digits




*April-February Manufacturing IIP in per cent

**9 Current Account Deficit (CAD):** The government is targeting a CAD of under one per cent this fiscal



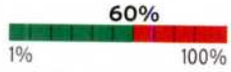

2013/14: Provisional
*April-December 2014

**10 Inflation:** Tumbling global oil and food prices have arrested inflation

CPI Inflation (base 2012) figures in per cent

are talking about Make in India. When will it start?"

Others, too, have their grievances. "Domestic industry is still shy of investing in India because the excess capacity owing to weak domestic demand isn't being offset by accessing overseas markets as the products or services are inadequately competitive in a global arena," says Rajiv Bajaj, Managing Director at two wheeler giant Bajaj Auto.




## Highs and Laws

Ahmed, Khan, and others who keep whingeing really need to listen to Ratan Tata. It is not quite right to say nothing has changed. On the contrary, a lot has, or is about to.

After 56 years, the Companies Act – passed during the United Progressive Alliance government tenure in 2013 – has been overhauled. The new one requires companies to set the highest corporate governance standards.

"With the [new] Companies Act, we will see an accounting world very comparable to what we will see in the EU or America – with the consequence that the trust of investors will increase considerably. The other side of the coin is to deal with updated governance regulations," says Peter Wollmert of EY Europe.

No less significant is the draft of five new labour codes that subsume 40 laws. According to reports, the draft law allows companies employing up to 300 workers to lay them off without official sanction. The sanction is now needed if you employ more than 100 workers.

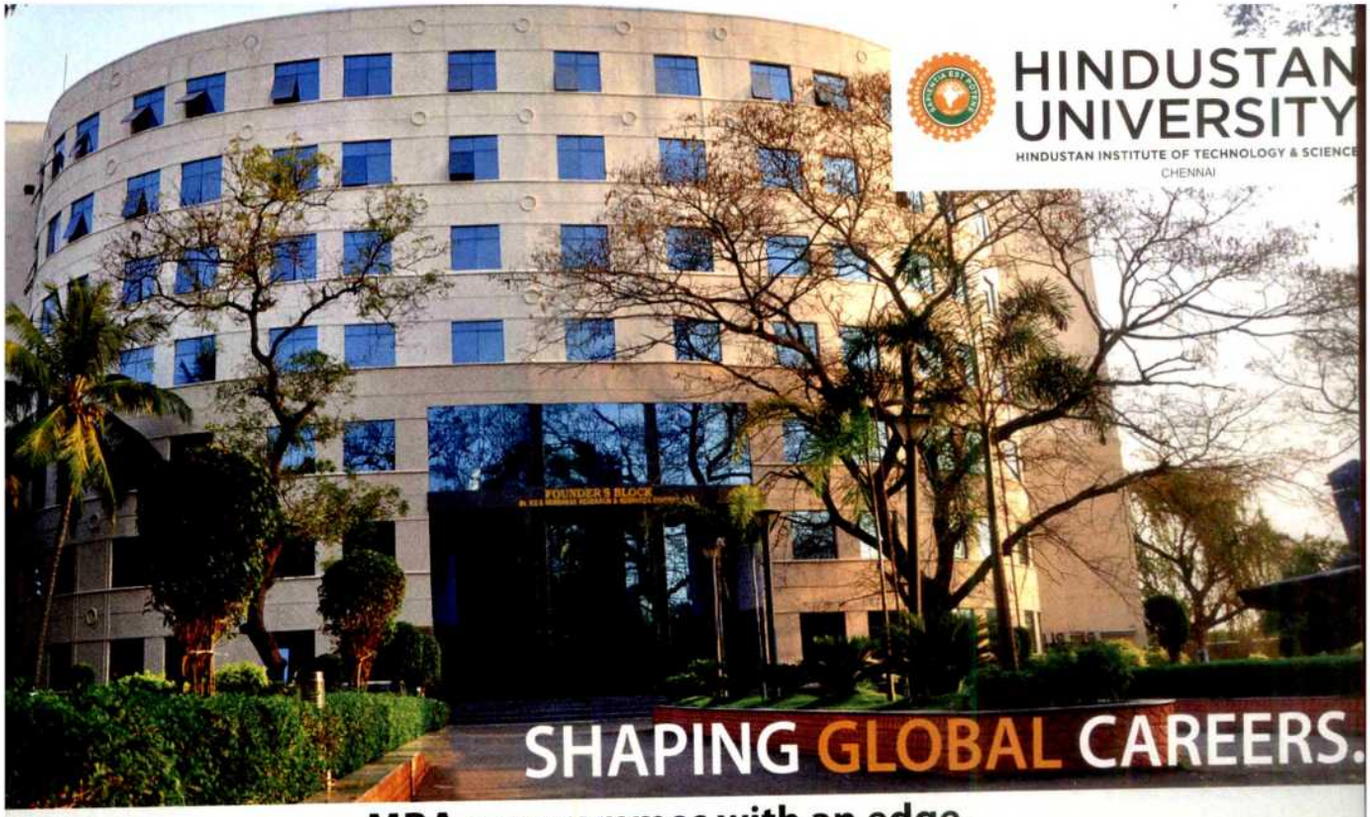
Admittedly, the lead in labour law reform was taken by Rajasthan, but the new law brings the Centre right back in the game. To soften the blow to workers, they, if retrenched, will be paid 45 days' wages, instead of 15 at present. Other changes seek to curb strikes and politicisation of unions.

"If we have to promote employment, we have to encourage small and medium enterprises. We have to make it easier for them and at the same time protect the health, hygiene and safety of workers," says Labour Secretary Shankar Aggarwal.

Much ground has been covered in clearance of projects. Of the 200 referred to the Project Monitoring Group in the power sector, the problems of 103 have been resolved. Of the 77 referred in the coal sector, the path of 30 has been cleared. Of the 26 in railways, 10 are free to rattle ahead.

Roads secretary Vijay Chhibber talks about the 8,000 km of national highways awarded this year – nearly double that last year. "In the next two to three years we will complete 90 per cent of the projects. They will get done, there are no ifs and buts."

More impetus to the sector will come from Bharat Mala, which could rival the Golden Quadrilateral, which

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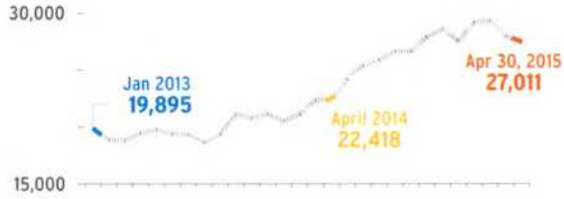
**11 Foreign Direct Investment (FDI):** FDI flows into India have remained sluggish

**12 Foreign Institutional Investor (FII) activity:** FII flows have been volatile

**13 BSE Sensex:** The market has been volatile mirroring the trend in FII flows




Sources: RBI, MOSPI, MCA, DIPP, ACE Equity

had given a fillip to infrastructure and economic growth in the early part of the century under the previous NDA government of Atal Bihari Vajpayee. Bharat Mala will run from Gujarat to Mizoram – 5,000 km – and cost about ₹12,000 crore to ₹14,000 crore.

"With a tremendous amount of backroom work already happening in roads, power, coastal and inland waterways, railways and urban transportation – it is expected that the private sector will see a hockey stick uptick in their order books by Diwali," says Vinayak Chatterjee of Feedback Infra.

That will not be a day too soon. Data show that the domestic industry has remained wary of investing in India. In construction activities, the rate of capital formation declined from 6.5 per cent in 2011/12 to 5.5 per cent in 2013/14.

There has also been considerable progress on the subsidy front, though Modi refuses stoutly to cut them. By the end of March, 123 million LPG consumers had joined the Direct Benefits Transfer scheme. They buy cylinders at market price and the subsidy gets deposited in their bank account. Unfortunately, data errors and coordination between banks and LPG distributors have meant that 2.5 million of 320 million transactions for paying subsidy to consumers have failed, but that's a small percentage.

In all 13 bills, some of them held up for years, have been passed by Parliament since Modi became Prime Minister. In comparison, six bills were passed in 2013 and 18 in 2012.

## Singeing Taxation

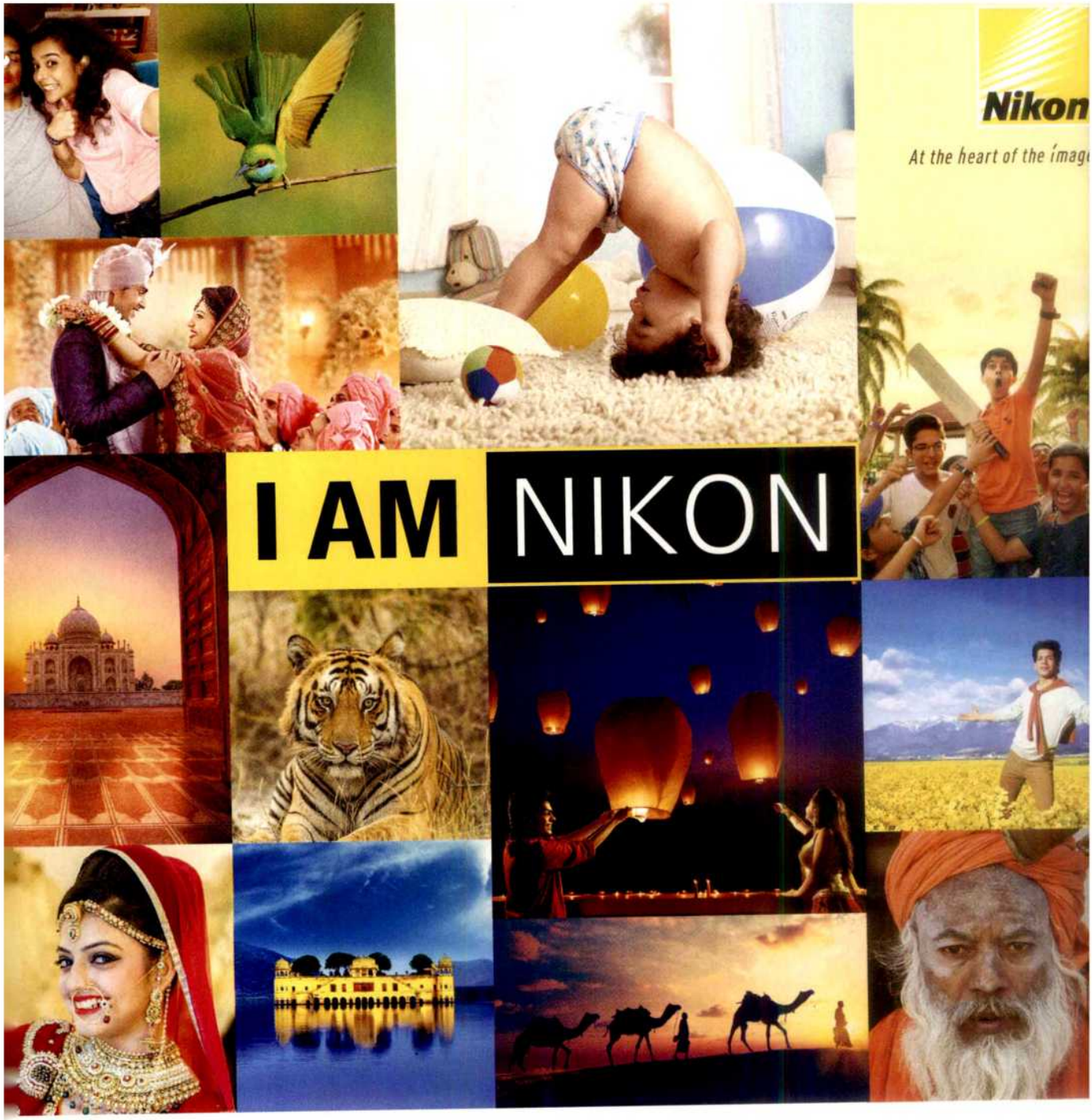
Finance Minister Jaitley did a timely manoeuvre on April 30 to help avoid a situation in which the term tax terrorism – his party had coined it during the election campaign to run down the UPA – would get stuck to the Modi government. As the Finance Bill came up for discussion in the Lok Sabha, Jaitley widened the scope of exemption from MAT on capital gains tax of foreign portfolio investors. It will be applicable not only on the sale of securities but also on other income streams such as interest income, technical fees and royalty. Secondly, this benefit will be available also to foreign debt funds, venture capital funds, and private equity funds.

MAT , or minimum alternate tax, was to be levied on capital gains made by foreign portfolio investors from April 1, 2015. This created a furore over the lack of clarity on taxation of capital gains made before the due date.

The tax department has already started opening up old cases, and raising tax demand on FPIs for their capital gains in the past. According to experts, the tax department can raise demand for seven previous years.

The government had initially said that the total tax demand would be around ₹40,000 crore. However, after much hue and cry over the issue, the government said that FPIs based in countries with which the government has a Double Taxation Avoidance Agreement would be exempt. After this clarification, the income tax department sent notices to 68 FPIs for payment of dues totalling ₹603 crore.

ICI Global, a body of international investment funds and fund managers with total combined assets of $20 trillion, wrote a strong-worded letter – *Business Today* has a copy – to the finance minister on April 13. "Our members are extremely concerned and deeply disappointed.... Quite frankly, we are astonished that MAT, which has been applied to only domestic companies since its enactment in 1996, now is being asserted against foreign investors," says the letter.



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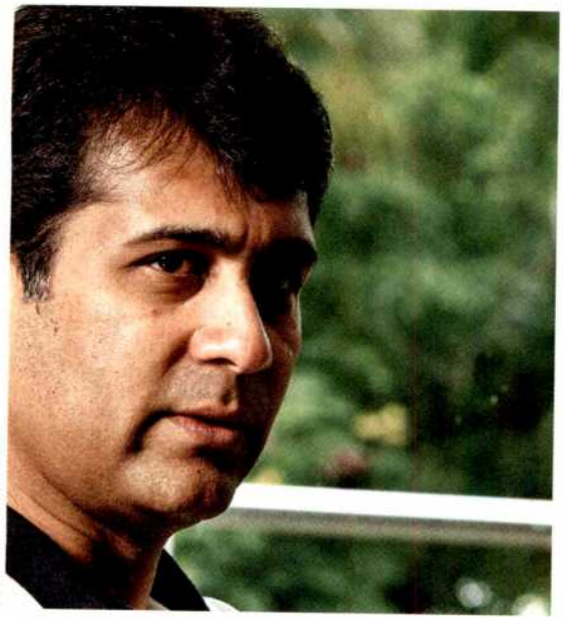

RACHIT GOSWAMI

"EXCESS CAPACITY OWING TO WEAK DOMESTIC DEMAND ISN'T BEING OFFSET BY ACCESSING OVERSEAS MARKETS"

**RAJIV BAJAJ,** MD, Bajaj Auto

According to Rahul Garg, Leader, Direct Taxes, PwC, the controversy on MAT is because the government doesn't want to intervene in cases already being heard in different courts. It has taken many steps to resolve issues of transfer pricing and indirect share transfers. Tax demands of up to ₹4 lakh crore are under dispute in different courts.

"The roll-back provisions under advance pricing agreements (APAs) was a big positive," says Mukesh Butani, Managing Partner, BMR Advisors. The key, he says, is the strong message that the government has sent about retrospective taxation and its commitment to a stable tax regime. The government's decision not to appeal a High Court ruling in favour of Vodafone, absolving the company in a ₹3,200 crore transfer pricing case, allayed the fears of foreign companies.

The government is also moving towards the much awaited Goods and Services Tax (GST), an indirect tax proposal that seeks to replace the plethora of central and state government levies. To clear the final hurdle, the government has promised the states to compensate for five years any losses due to implementation of GST. At the time this article was finalised, the government was planning to table the GST Bill in the Lok Sabha.

However, without taking anything away from the changes and the intent, tax administration is in much need of reform, one that will change the attitude of officers. Tax officers have their targets and often demands are raised on companies to meet these targets. "While there is a change in the attitude of policy makers, the attitude of policy implementers has not changed yet," says S.P. Singh, Senior Director, Deloitte Haskin & Sells.

80%

1% 100%

## Winning Abroad

*"Like India, he transcends the ancient and the modern – a devotee of yoga who connects with Indian citizens on Twitter and imagines a 'digital India'."*

That's the United States President Barack Obama writing about Prime Minister Modi in *Time* magazine. Some called it a love note. Not too long ago, the US had refused a visa to Modi.

On second thoughts, that was a long time ago, before Modi became Prime Minister. Since then, he has travelled to 16 countries, each welcoming him with much fanfare (his Madison Square gig was compared with those of rock stars). World leaders have competed with the Indian diaspora of their countries in fawning over Modi. Many agreements and MoUs have been signed. For instance, China and Japan have promised investments of $20 billion and $30 billion respectively. They will take time to show up as investments on the ground in India, but the perception of success is undeniable.

"I think there are great achievements on foreign policy. International ties should build economic and strategic partnerships. Strengthening our ties with France, Germany, Japan, Korea, the US, and Australia is building a strategic and economic foundation," says Ajit Ranade, President and Chief Economist of Aditya Birla Group.

The world is once again looking at India favourably and the fact that the first year of the government has gone without any scams augurs well.

According to a World Bank Development update, the Indian economy is in a much brighter spot and is poised to grow at 7.5 per cent in the current year. The Country Director of World Bank, Onno Ruhl, however, adds that there is a need for reducing the pipeline of stuck projects, especially in the Public Private Partnership space for lifting the investment rates.

Ruhl need not fret. One of the two Modis should be able to take care of that. ◆

ADDITIONAL REPORTING BY CHITRA NARAYANAN; RESEARCH INPUTS BY NITI KIRAN

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AJAY THAKURI

# Small Is Fanciful

There is a rush for small finance bank licences, but such lenders will face huge challenges. By ANAND ADHIKARI

## TOUGH TASK

Why the going will be difficult for the new banks

Old private sector banks, the small banks' **direct rivals, are becoming more tech savvy and** acquiring national ambitions

The RBI may give universal bank licences to urban cooperative banks. **This will intensify competition**

Big banks, both public and private, are **increasing their presence in semi-urban and rural centres,** setting up low-cost branches

One of them, Sri Jayalakshmi Automotives, is a car dealer from Hyderabad. Another company, Elite Green Pvt Ltd, is an Ahmedabad-based foodgrain supplier and exporter. A third, Jainco Projects, is into construction in Kolkata. A fourth, also Kolkata-based financial company, Ashika Global Securities Pvt Ltd, had one of its subsidiaries, Ashika Stock Broking Ltd, banned from trading by the Securities and Exchange Board of India (SEBI) in 2010 for alleged market manipulation.

The 72 applicants for small finance bank licences are a mixed lot, indeed, a good number having had nothing to do with banking before. They hail from areas as diverse as Tiruchirapalli (Tamil Nadu), Aluva (Kerala), and Sikar (Rajasthan). Small banks are Reserve Bank of India (RBI) Governor Raghuram Rajan's latest initiative to further financial inclusion by creating new banking models. Their purpose, apart from mobilising deposits, is to provide credit to sections currently unable to access it sufficiently from the big commercial banks – small business units, small and micro industries, small and marginal farmers, self-employed individuals, especially those in semi-urban and rural areas. They will be different from payment banks – another recent Rajan idea – which are merely an additional vehicle for savings. Small finance banks will also lend – although only to specified sections – and sell mutual funds, insurance and pension products.

The RBI has set clear guidelines to ensure the proposed small banks have the right focus. With a minimum capital of ₹100 crore, they will have to direct 75 per cent of their credit to the priority sector – primarily agriculture, small industry, small business, micro credit, education and housing. The sector's ambit may be widened to include agri-infrastructure, agri-processing, health care, sanitation, drinking water and renewable energy. The central bank has also stipulated that 50 per cent of the small banks' credit portfolio must comprise loans of ₹25 lakh or less, so that small borrowers become a priority. "We're making sure that whatever gaps remain in coverage, be they of regions or products, are covered by these new entities," said Usha Thorat, former RBI Deputy Governor, at a recent financial inclusion seminar. She heads the four-member external evaluation committee which is screening the applicants.

The small banks will not be exempt from the statutory liquid ratio (SLR) and cash reserve ratio (CRR) stipulations that other commercial banks are subject to. But considering the higher default risk of the customers they have to target, they will be allowed to set their own lending rates, which are likely to be higher than those of the big banks.

## Challenges Galore

"India is over-banked but under-served," says Vishwavir Ahuja, CEO and Managing Director of RBL Bank (the erstwhile Ratnakar Bank). "There is huge opportunity." But there are huge challenges, too. Nowhere in the world so far have small banks been a roaring success. In the US, where they are called community banks, a few are doing well, such as State Bank of Texas and Prins Bank, but overall they hold less than 15 per cent of the country's total banking assets.

As for developing countries, the Committee on Comprehensive Financial Services for Small Businesses and Low Income Households, headed by RBI central board member Nachiket Mor, had noted that such banks, though numbering in hundreds, had not increased financial inclusion significantly in countries such as Nigeria and Tanzania, while in places like the Philippines and Ghana they needed intensive, subsidised upgrading to survive. "The jury is still out on Mexico, but risks are apparent," the report added. "Supervisory capacity has been overwhelmed by many small institutions, leaving weaknesses uncorrected."

There have been small banks in India for a long time, but their impact has been limited. There are the dozen-odd old private banks such as The Catholic Syrian Bank in Kerala (started in 1920), Nainital Bank (1922) or RBL

Specialised NBFCs such as **Mahindra Finance are also expanding credit in these areas**

Payment banks, which have **no lending activity but only accept deposits, are also being set up** and will be rivals in deposit mobilisation

Credit bureaus do not track borrowers in semi-urban and rural areas, **thus getting credit history will be a challenge**

# THE OPPORTUNITY

The business case for small banks. They can tap:

### Farmers

**51.4%**

of farmer households have no access to either formal or informal sources of credit

### Farm-related Businesses

Includes irrigation, cold storage, post-harvest support, farm technology, agri-related research and development, etc

### MSME Sector

**78%**

of the total finance demand of almost ₹40 lakh crore is met either by loans from informal sources or personal savings

### Social Infrastructural Initiatives

Includes education, health and sanitation, Swachh Bharat Abhiyan, etc

Bank in Ratnagiri (1943) which were left alone when their bigger counterparts were nationalised in 1969, but their share of deposits and credit advances in the overall banking system is less than five per cent. Urban cooperative banks (UCBs) have an even smaller share of 3.5 per cent, while the regional rural banks' (RRBs) share is three per cent. Moreover, most of them have built their businesses by lending to wealthy traders and not to the sections Rajan has in mind for the new small banks. Indeed, some of them were also largely focused on traders from specific communities.

The only entities lending to the sections the RBI seeks to target are the microfinance institutions (MFIs). Though this sector, too, has had its problems, notably due to a stringent law regulating its activities passed by the Andhra Pradesh government in 2010, which had the inadvertent effect of encouraging its borrowers to default in large numbers, it has since recovered and is engaged in the very task the RBI wants small banks to perform. Not surprisingly, of the 72 applicants, 18 are microfinance institutions seeking to turn into small banks. "The hope is that there will be a positive bias towards MFIs while awarding small bank licences," says Alok Prasad, CEO of MFIN, a regulatory body for MFIs which has RBI recognition.

Non-banking finance companies (NBFCs), a good number of which have also applied, have similar hopes. Among the applicants, for example, is Chennai-based Equitas Holdings Pvt Ltd, which offers credit to micro and small enterprises, buyers of used commercial vehicles, apart from microfinance and housing finance. "A small bank fits nicely with our business model," says P.N. Vasudevan, founder and Managing Director. "We'll use high-level technology and keep our operational costs low to create a winning business model. Our customers are the kind who would not have access to the banking system. But for us, they would have ended up taking loans from moneylenders."

But small banks, apart from extending credit, will also have the job of mobilising deposits. This requires inspiring immense trust. Neither MFIs nor NBFCs have experience in this aspect. "Building a retail deposit

**Piyush Singh**
MD (Financial Serices)/Accenture

**"The new small banks will have to be niche to be successful... But the niche will have to be in terms of customers or products. If niche is merely geographical or in terms of market, the bank will fail"**

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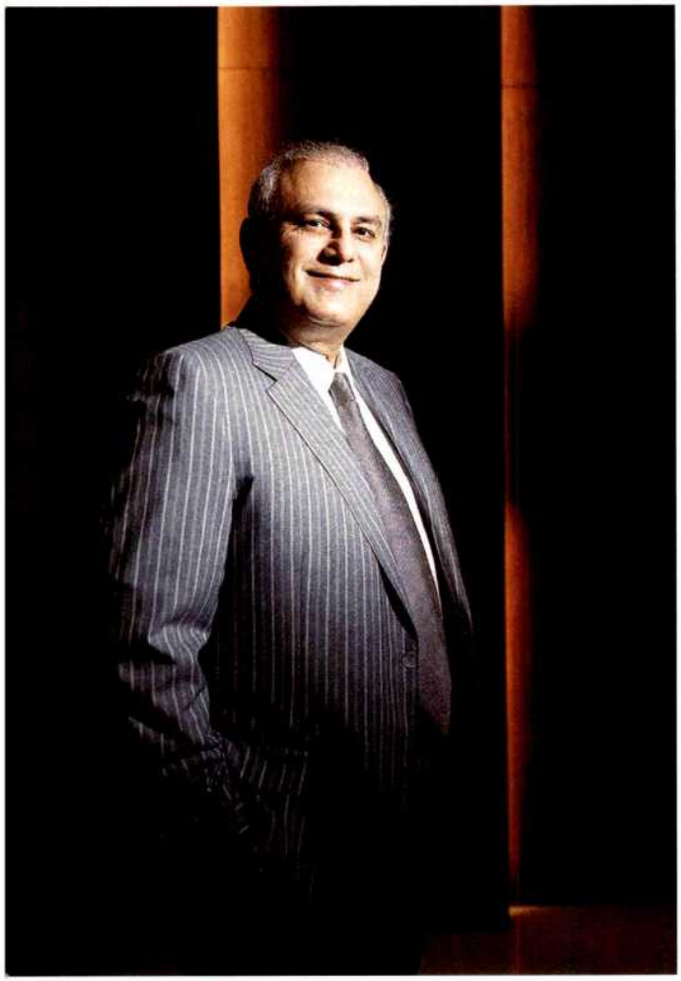


RACHIT GOSWAMI

**Vishwavir Ahuja**
MD & CEO/RBL Ltd

**"India is over-banked but under-served. There is huge opportunity"**

portfolio is a big challenge where existing public and private sectors banks have an advantage because of their strong brands," says Prasad of MFIN. Besides, the Jan Dhan programme has ensured that almost every adult now has a savings bank account, though the majority of accounts opened under it are "zero balance" ones. People may well prefer to deposit whatever savings they accumulate in the accounts they already have than open new ones. There are also worries about how stringent regulation will be, given that it has fallen short in many other countries. "Is the regulatory apparatus ready to monitor, supervise and guide small finance banks?," says a private banker who prefers not to be named. "We are creating a new category of banks without cleaning up the existing ones, especially the UCBs and RRBs."

## Fierce Competiton

The new small finance banks will also face competition. Mahindra Finance, for instance, an NBFC, with revenues of around ₹5,000 crore and profits of nearly ₹1,000 crore in 2013/14, has fashioned its business model to concentrate on lending to farmers and the non-salaried. "Financial inclusion should not be a diktat, but should emerge out of a commercially viable model," says Ramesh Iyer, its CEO and Managing Director. "The financial product should be designed based on the borrower's projected cash flow and not on what he earned in the past. He should be provided flexibility in repaying his loan."

Some of the old private banks like RBL Bank are also sprucing up their acts, installing the latest technology, drawing away talent from leading private and foreign banks and expanding their footprint nationally. They could well also emerge as the new small banks' rivals, too. "The origins of banks like ours may have been niche, but our current strategy is not niche," says RBL's Ahuja, who was himself formerly CEO of Bank of America. "Almost 60 per cent of our business are in the smaller cities. Our entire architecture is low cost and low frills, but at the same time enabled by technology. We do everything from ₹50,000 to ₹10 lakh in terms of loan ticket size."

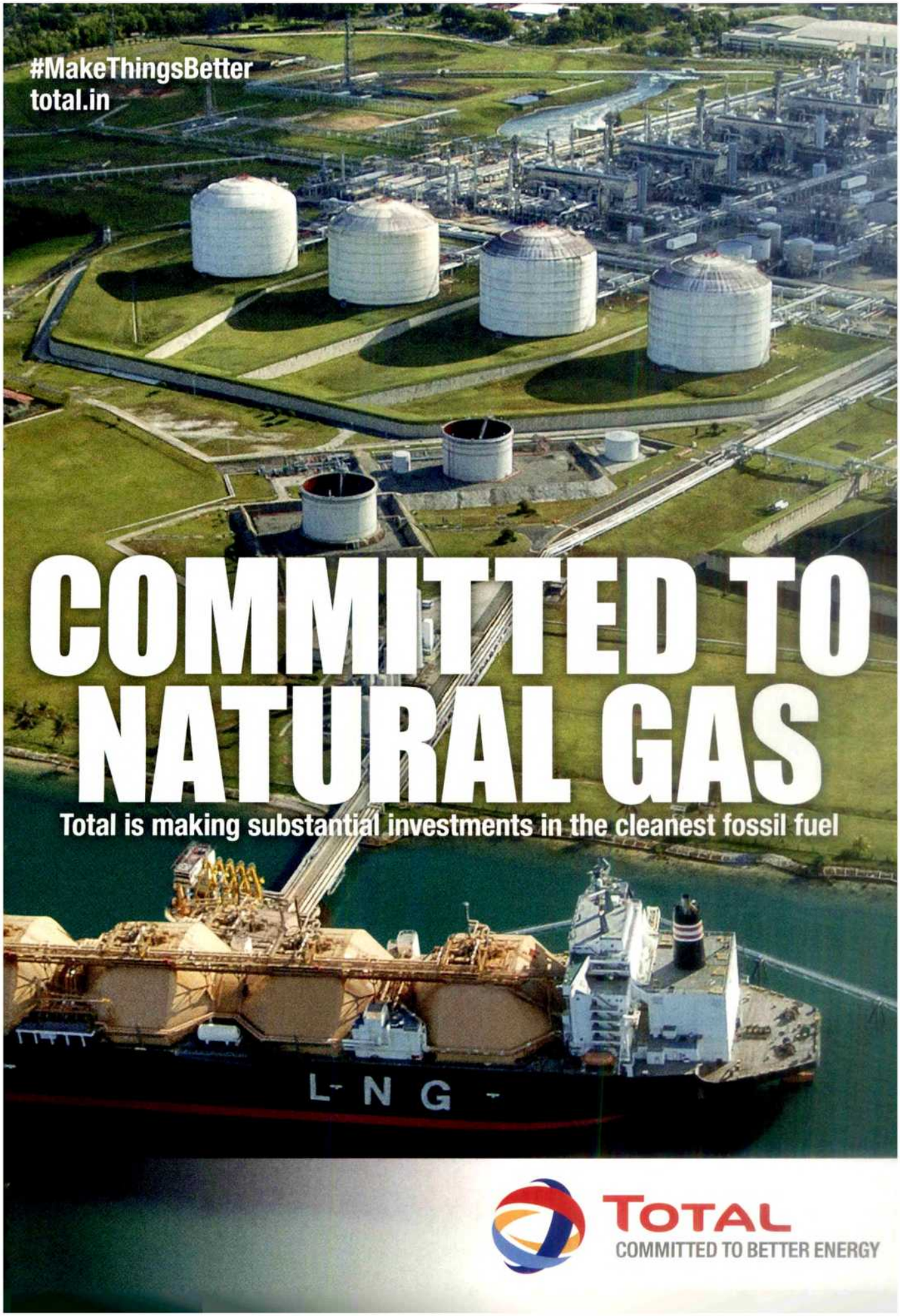
## FOCUSED MARKET

Small finance banks will operate mainly in semi-urban and rural areas

**23.6%**
Share of such areas in commercial banks' total deposits

**18.4%**
Share of such areas in commercial banks' total credit

Figures are for deposits and credit outstanding as on March 2013 Source: RBI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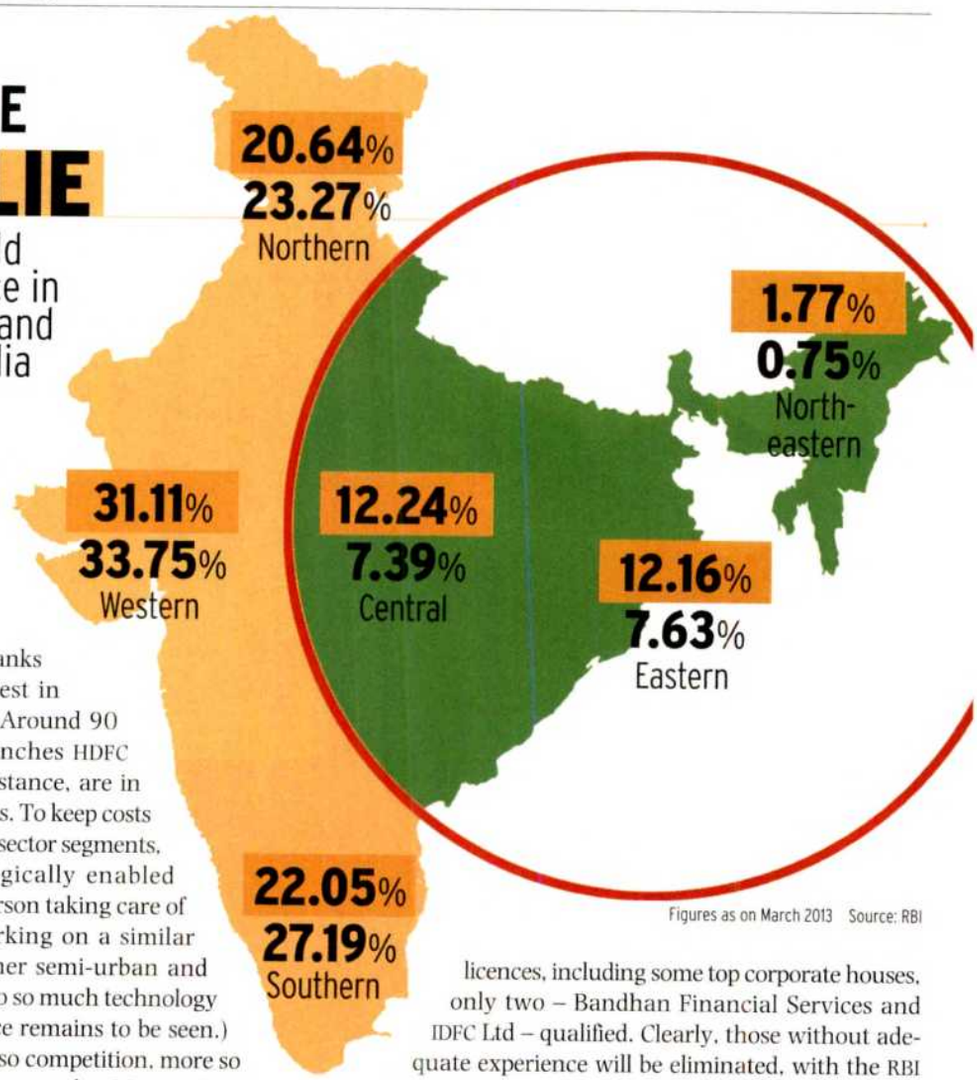
# WHERE THE GAPS LIE

Small banks could make a difference in central, eastern and northeastern India




Figures as on March 2013 Source: RBI

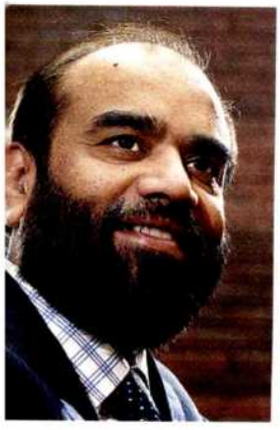
Even the big private banks are showing more interest in non-metros than before. Around 90 per cent of the new branches HDFC Bank is setting up, for instance, are in semi-urban and rural areas. To keep costs low and yet target priority sector segments, it is planning technologically enabled branches with just one person taking care of it. ICICI Bank is also working on a similar model. (No doubt, whether semi-urban and rural customers will take to so much technology without a human interface remains to be seen.) Lastly, existing MFIs are also competition, more so with the Centre setting up the Micro Units Development Refinance Agency (MUDRA) Bank, which will provide refinancing support to MFIs.

## Big Question

How many will ultimately get licences? The RBI's track record while choosing is one of immense caution. Last year, of the 25 applicants for new commercial banking licences, including some top corporate houses, only two – Bandhan Financial Services and IDFC Ltd – qualified. Clearly, those without adequate experience will be eliminated, with the RBI having set down 10 years experience in banking and finance as an eligibility norm. "There are many who are unaware of the rigour, prudence norms and supervisory framework of the banking sector," says another banker who does not want to be named. "They are attracted by the significant premium value of owning a banking licence."

Many feel the RBI will give preference to local players. It will also seek to rectify the lopsided nature of banking penetration in India, where deposits and credit extended in the eastern, northeastern and central regions are much lower than in the West and the South. (See *Where the Gaps Lie.*)

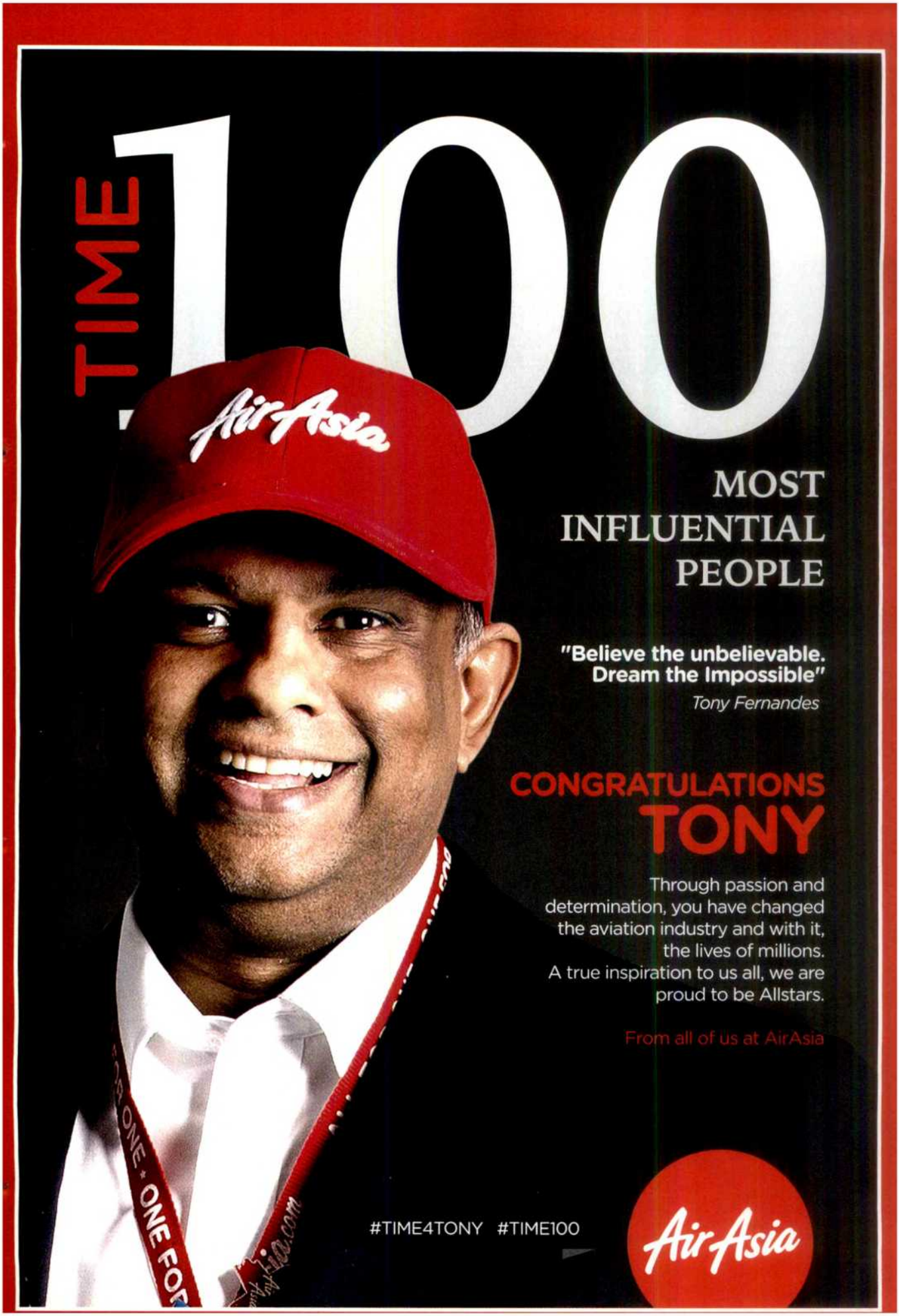
Success for those granted licences will depend on how well they play the niche card. "The new small banks will have to be niche to be successful in the crowded financial services space," says Piyush Singh, Managing Director (Financial Services) at global consulting firm Accenture. "But the niche will have to be in terms of customers or products. If niche is merely geographical or in terms of market, the bank will fail." ◆



**Ramesh Iyer**
MD & CEO/Mahindra Finance

**"The financial product should be designed based on the borrower's projected cash flow and not on what he earned in the past. He should be provided flexibility in repaying his loan"**

@anandadhikari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# DOWN, BUT NOT OUT

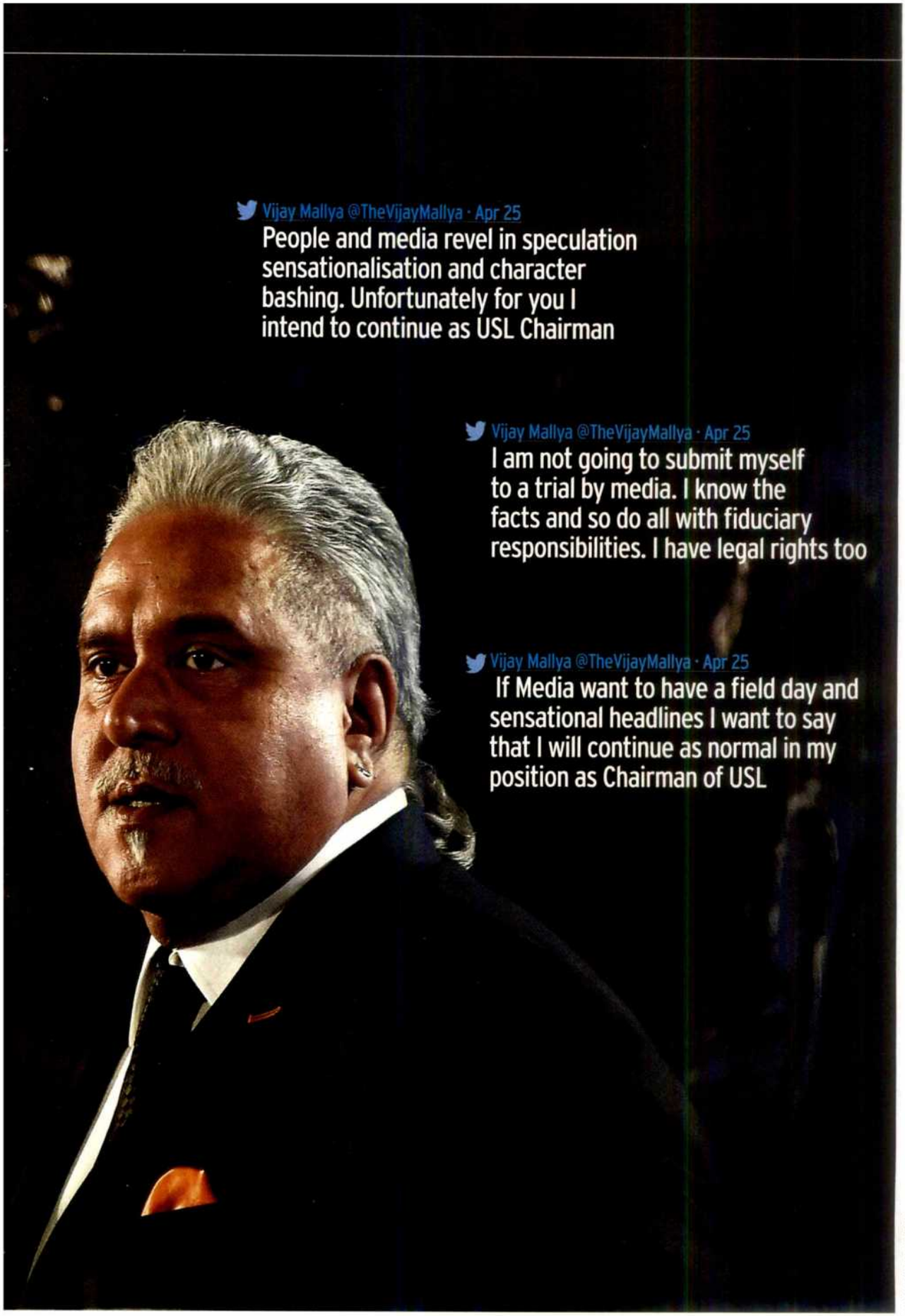
## Vijay Mallya's high-flying days maybe over, but his airworthiness can still take him a fair distance.

By VENKATESHA BABU

It was a bitter-sweet April for India's most flamboyant businessman Vijay Mallya. The massive showdown at the April 25 United Spirits (USL) board meeting, where the 59-year-old Mallya was asked to step down as the Chairman of the company now controlled by global liquor giant Diageo, could well be the beginning of a bitterly fought battle that threatens what once was a mighty business empire. April 13, meanwhile, was a day for him to both lament and exult. On one hand, the buyers of his 11-seater private jet – which had been seized and auctioned by the Mumbai International Airport to recover part of Kingfisher Airlines' dues – began dismantling it to sell it off as scrap. On the other, he achieved a minor victory by staving off a hostile takeover bid by Deepak Fertilisers and Petrochemicals on Mangalore Chemicals and Fertilizers (MCFL), a UB Group company.

A bid for a company owned by Mallya – himself a feared corporate raider – would have been unimaginable a few years ago. But today, the 'King of Good Times' stands considerably weakened by the debilitating impact of the now defunct Kingfisher Airlines, which has left him with a debt pile of ₹8,657 crore and a host of lenders lined up with suits against him. Ever since, Mallya has been battling on several fronts to save his crumbling holdings in group companies. But the triumph over Deepak Fertilisers only proves Mallya may be down, but definitely not out.

Mallya's response to the April 25 face-off with Diageo is a case in point as he immediately went on an offensive, taking to Twitter to insist he had an agreement with Diageo to remain chairman and that only a full shareholders' meeting could oust him. At the same time, he has refused to explain his position or actions. "I am not going to submit myself to a trial by media," began one of the tweets. "I intend to continue as USL Chairman," said part of another. Messages and emails from *Business Today* to his office went unanswered.




GETTY IMAGES

Mallya's share in USL has already fallen to 4.09 per cent, while that of global liquor giant Diageo has risen to 54.78 per cent over the last few years. But on the stock exchanges, Mallya is still listed as the Indian promoter and Diageo as the foreign promoter and Mallya remains chairman of the company so far, based on the agreement with Diageo when the deal was done.

At the meeting, USL CEO and Managing Director Anand Kripalu submitted a PricewaterhouseCoopers (PwC) report saying receivables, advances and deposits worth ₹1,337.50 crore had been diverted from USL to other United Breweries (UB) Group companies between 2010 and 2013. Following the tabling of the report, the other directors of USL called upon Mallya to resign as chairman and quit the board.

Mallya, with his 4.09 per cent holding, might seem to be a weak hand, but he still has considerable resources at his disposal. He is an influential Member of Parliament and carries goodwill with several leading politicians cutting across political boundaries. He has also threatened to move court. "Diageo needed Mallya to understand the lay of the land. India can be a minefield, especially in such a sensitive industry. Many may be underestimating Mallya," says a former USL senior executive. Apart from this, though he may not be a billionaire now, he still has enough wealth to fight a lengthy battle to stake claim to what he believes is rightfully his. "The charges by USL are pretty serious. Mallya will defend his stand vigorously through legal and other channels. There is no question of exiting the company," says a source close to Mallya.

## Fraught with Irony

USL is the biggest player in the India Made Foreign Liquor (IMFL) segment of the country's liquor market, with about 40 per cent market share. It owns 31 manufacturing units and has another 57 facilities in partnership with others. It had revenues of ₹10,615 crore in 2013/14 and its share price, oblivious to the tribulations of other Mallya companies such as Kingfisher Airlines, has more than tripled in the past three years, against an overall 56 per cent rise in the Bombay Stock Exchange Sensex.

"The situation is fraught with irony in that for years, before it acquired a foothold in USL, Diageo had been wooing Mallya in its bid to capture the Indian market," says a former UB executive who does not want to be named. Mallya finally succumbed in November 2012, after debts mounting from the collapse of Kingfisher Airlines forced his hand. Thereafter Diageo, using open offers and overcoming several legal hurdles, kept increasing its stake till it became majority shareholder in July 2014. All the while, Mallya even referred to Diageo's Indian-origin CEO, Ivan Menezes, as his "friend". Conversely, as late as November last year, Diageo backed Mallya's re-election as chairman of USL.

But changes at USL had begun ever since Diageo obtained a controlling stake in the company in 2013, and acquired greater momentum

## COGS AND CROWNS: Companies Mallya inherited, acquired...

**1 UNITED SPIRITS** Merger of McDowell, Herbertsons, Shaw Wallace, Triumph Distillers and Vintners, as well as Baramati Grapes. Integrated in 2006.

**2 UNITED BREWERIES** UB held all brewery operations of the group

**3 AVENTIS PHARMA, BAYER INDIA, CADBURY INDIA** Vittal Mallya owned majority stake in Aventis Pharma. UB Group sold its stake by 2010. It cashed out of Bayer in 2004. Mallya also sold his father's Cadbury stakes.

**4 KISSAN PRODUCTS** Mallya inherited the jams and ketchups company from his father. He sold it to Brooke Bond India in 1994, part of what is now Hindustan Unilever.

**5 HINDUSTAN POLYMERS** Started in 1961 to make styrene monomer, it was merged with McDowell in 1978. It became a separate company yet again in 1994 and, finally, it was sold to LG Chemicals in 1997.

**6 WESTERN INDIA ERECTORS** Set up in 1970, it underwent various iterations, including being named Western India Engineering. It was dissolved to form what is today UB Engineering.

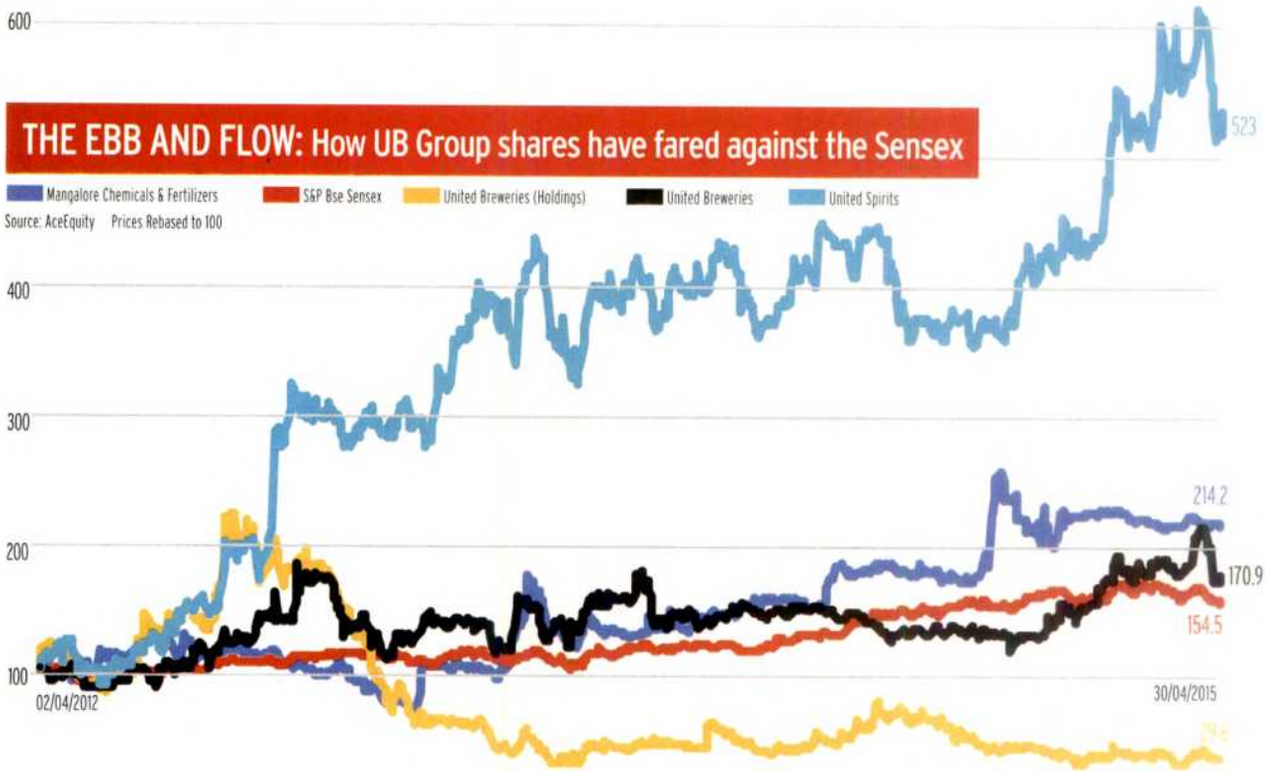
**7 UB PETROCHEMICALS** Started as a division of United Breweries as early as 1960, it was dissolved in 2001.

**8 UB PHARMACEUTICALS, DOMINION CHEMICAL INDUSTRIES, CAREWS PHARMA AND OPTREX** Vittal Mallya acquired Carews Pharma in 1982. Carews was eventully sold to Aventis. UB Pharma was merged with UB Holdings. Optrex and Dominion were integrated into UB Pharma, which became a part of UB Holdings.

**9 PIZZA KING** Started in 1986. The company never took off and the UB group exited the business in 1989.

**10 VIJAY TV** Mallya bought Golden Eagle Communications in 1994 and named it Vijay TV. In 1999 he sold it to UTV, which in turn, was acquired by STAR TV network.

*Mallya inherited companies numbered 1-8; and acquired or started the remaining himself




from July. Among the first was the sale of Whyte & Mackay, the Glasgow-based liquor company USL had bought in 2007, to Philippines-based Emperador Inc, for an overall loss of ₹4,652 crore. While the sale had been on the cards, the enormous write-off – considering USL always insisted Whyte & Mackay had been doing well – was not. Another was the steady attrition of senior USL executives who had been close to Mallya – Managing Director Ashok Capoor, UB Group Chief Financial Officer Ravi Nedungadi, Harish Bhat, Bharath Raghavan, Prakash Mirpuri, A. Raghunathan and R.N. Pillai. Some of them have quit the UB Group, while others remain associated with other Mallya companies.

In May last year Diageo brought in Kripalu as CEO, making him MD as well after Capoor quit. The latest Mallya loyalist to depart was Chief

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**BERGER PAINTS** Acquired by Mallya in 1988. He exited it in 1996 at a profit of nearly $200 million.

**BEST & CROMPTON** In 1989 Mallya acquired the Chennai-based engineering firm from the Polysindo Group of Indonesia.

**ASIAN AGE HOLDINGS AND UB PUBLICATIONS** Launched in 1997, UB initially owned the Bangalore and Kolkata editions of The Asian Age. The company was bought by Deccan Chronicle Holdings in 2005. Mallya also owned a stake in the tabloid Blitz. UB Publications was merged with UBL in 2004.

**MINES EXPLORATION AND UB MINING** Both companies dabbled in preliminary exploration and were dissolved in 1999.

**UB AIR** Mallya floated UB Air in 1990, before dropping the business.

11 12 13 14 15 16 17 18 19 20

**CARBONATED BEVERAGES** The company was part of McDowell (now part of USL); the UB Group later exited this business.

**UB MEC BATTERIES** Mallya merged UB MEC with Herbertsons in 1999. It was eventually sold to the Kirloskar Group.

**UNITEL COMMUNICATIONS** The telecommunications arm of the UB Group was set up in 1985. The company was referred to BIFR and UB Group eventually exited from it.

**MASONELIAN INDIA** The UB Group bought it from Kerala State Electronics Development Corp in 1993 and renamed it MIL Controls. It was sold to KSB AG in 1997.

**UB HOPPECKKE ENERGY PRODUCTS** Was formed to offer power supply solutions, but was wound up in 2001. Hoppeckke today has independent operations in India.

Financial Officer P.A. Murali in April this year. Four of the six independent directors on the board of USL – Renu Sud Karnad, G.N. Bajpai, Arunkumar Ramanlal Gandhi and Vikram Singh Mehta – have also resigned over the past year citing multiple reasons.

For a third, USL has withdrawn its sponsorship of the Indian Premier League cricket team, Royal Challengers Bangalore, even though Royal Challenge is one of its leading whisky brands. (The team's main sponsor now is Chinese telecom equipment maker Huawei.) Then again, in January 2014, Diageo's posted one of its senior executives, Steven Grubb, at the USL headquarters in Bangalore as Global Compliance Transformation Director. In August, Grubb announced a new "code of business conduct" for USL – replacing an eight-year-old one Mallya already had in place – intended to ensure the company met Diageo's global standards of compliance, ethics and internal audit. Whether such standards are practicable in India can, however, be questioned.

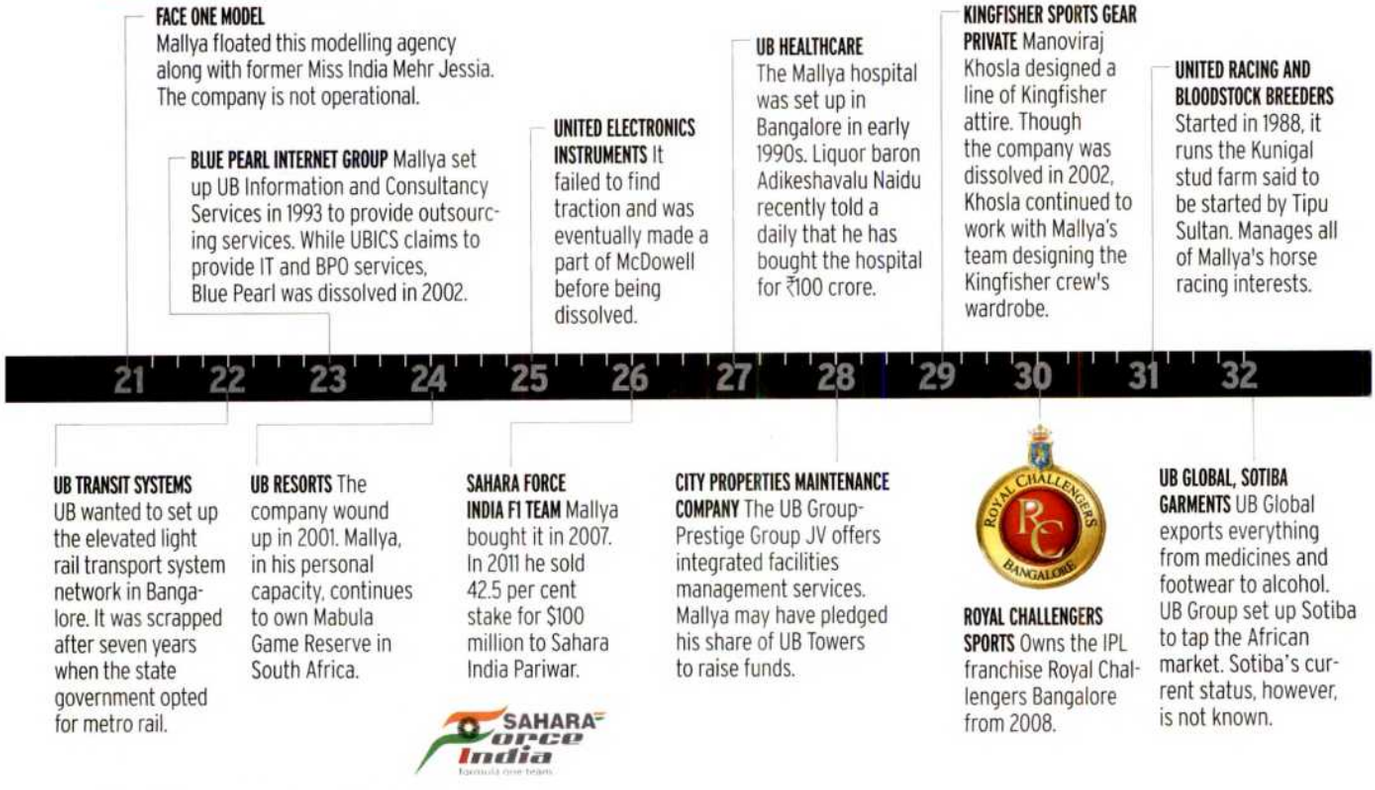
The liquor industry in India is a minefield of ethical challenges for many reasons, even if one has the best of intentions. It is a state subject and operating in the Indian market could often mean that a company has to meet state-specific laws and regulations. There is also social and religious taboo associated with the product. Often the buyer is a single state monopoly and navigating the regulatory and political environment could mean making compromises, which is industry shorthand for corruption. Demands from local officials and politicians could, therefore, become unbearable and there have been cases where companies had to even stop operations in some states. However, most of them have publicly given other reasons for doing so. Mallya, an old hand in stitching up personal equations with both the state machinery and local players, could use these relationships to throw a spanner in the works of Diageo's India plans.

## Why Now?

Finally, Diageo hired PwC to conduct – alongside its own risk and compliance team, and legal team – a forensic audit of USL, which resulted in the report submitted to the board on April 25. Then the other directors called upon Mallya to resign as chairman and quit the board. Mallya's response – though he has refused to address specifics – is that every allegation made relates to a period before Diageo acquired a controlling interest in USL and should accordingly have been brought up while Diageo was conducting its due diligence before taking over. So, why now?

"Yes, due diligence had been undertaken... (but) any due diligence exercise, even when properly carried out, has its limitations, as not every issue arising on account of historical transactions can be identified," said a Diageo spokesperson in response to a

## ...started or shut down



questionnaire from *Business Today*. "We were aware in disclosures given before our investment in USL of receivables owed from various third parties to USL. We were given express representations that all of these receivables were recoverable in full."

What about Mallya's claim that Diageo had a contractual obligation to support his continuance as chairman? "The obligation is subject to certain conditions as well as the absence of certain defaults by UB or Mallya," the spokesperson added. "USL has provided its inquiry report and all related material to Diageo, which will now consider its position under its agreements with Mallya and United Breweries."

**AT FACE VALUE: Mallya's stock holdings and their value**

| NAME OF THE COMPANY | MALLYA'S HOLDINGS | % SHARES PLEDGED | VALUE OF MALLYA'S HOLDINGS# | VALUE AFTER DISCOUNTING PLEDGED SHARES# |
|---|---|---|---|---|
| United Breweries* | 27.44% | 52.82% | 6,768.35 | 3,193.3 |
| United Spirits* | 4.09% | 54.02% | 1,980.9 | 910.8 |
| UB Holdings* | 52.34% | 14.83% | 69.2 | 59 |
| UB Engineering** | 40.74% | NIL | 5.2 | 5.2 |
| MCFL*** | 38.44% | 10.43% | 392.2 | 351.3 |
| TOTAL | - | - | 9,215.85 | 4,514.4 |

Value in ₹ crore; *Holdings as on March 2015; **Holdings as on September 2014; ***Holdings as on December 2014; Mallya's absolute holdings have been taken into consideration; Apart from the ones listed above, Mallya has other assets too; Shares pledged have been taken into account to calculate value of Mallya's holdings; #Value of holdings as on April 30, 2015 except for UB Engineering, which has been suspended from trading due to procedural reasons; Value of holdings for UB Engineering as on April 27, 2015; Source: BSE

## Future Uncertain

Analysts are divided over the ethics of the clash and its likely consequences. Shriram Subramaniam, MD of proxy advisory firm InGovern Research Services, puts Mallya in the dock. "We had advised minority shareholders of USL to vote against Mallya when he sought re-election as chairman last year," he says. "Our apprehensions about irregularities in the accounts of the company have proved accurate. The Securities and Exchange Board of India (SEBI) or other competent authorities should take a closer look at the whole affair."

Lalit Kumar, partner at leading law firm J. Sagar Associates, is less harsh. "If the alleged transactions had been scrutinised earlier and no objections raised, and if the board was fully aware of the details, then Mallya's argument holds some weight," he says. He agrees, however, that SEBI has the right to take suo motu notice to protect minority shareholders. "If the allegations are proved, even other board members at the time may be liable," he adds.

Is Mallya right in asserting that only a full meeting of shareholders can remove him? "A majority of board members can remove the chairman," says the former UB executive. "But only shareholders can remove a director. Since no one knows the exact details of the agreement between Mallya and Diageo, it is hard to comment. But usually such a tussle is precursor to a lengthy legal battle or a negotiated settlement." Which will it be? Diageo can easily summon an extraordinary general meeting of shareholders to remove Mallya from the board altogether, but Mallya has made it clear he will then go to court.

What about buying out Mallya's remaining stake? Some observers are not even sure the 4.09 per cent stake remains with Mallya or has been pledged to meet Kingfisher Airlines' losses. "The most likely outcome would be a negotiated settlement or a buyout of Mallya's remaining stake by Diageo," says Subramaniam. "But minority shareholders could still move against this as the value of their holding would be impacted."

Indeed, Mallya, who took over USL following his father's death in 1983, is bound to have plenty of supporters among the company's rank and file. He is known to have been a generous employer during the good times. The outcome of a protracted battle with him remains in doubt, even for the likes of Diageo.

The Diageo spokesperson refused to comment on whether Mallya had already made any marketplace moves against USL. Nor would she be drawn out on how, if at all, USL pro-

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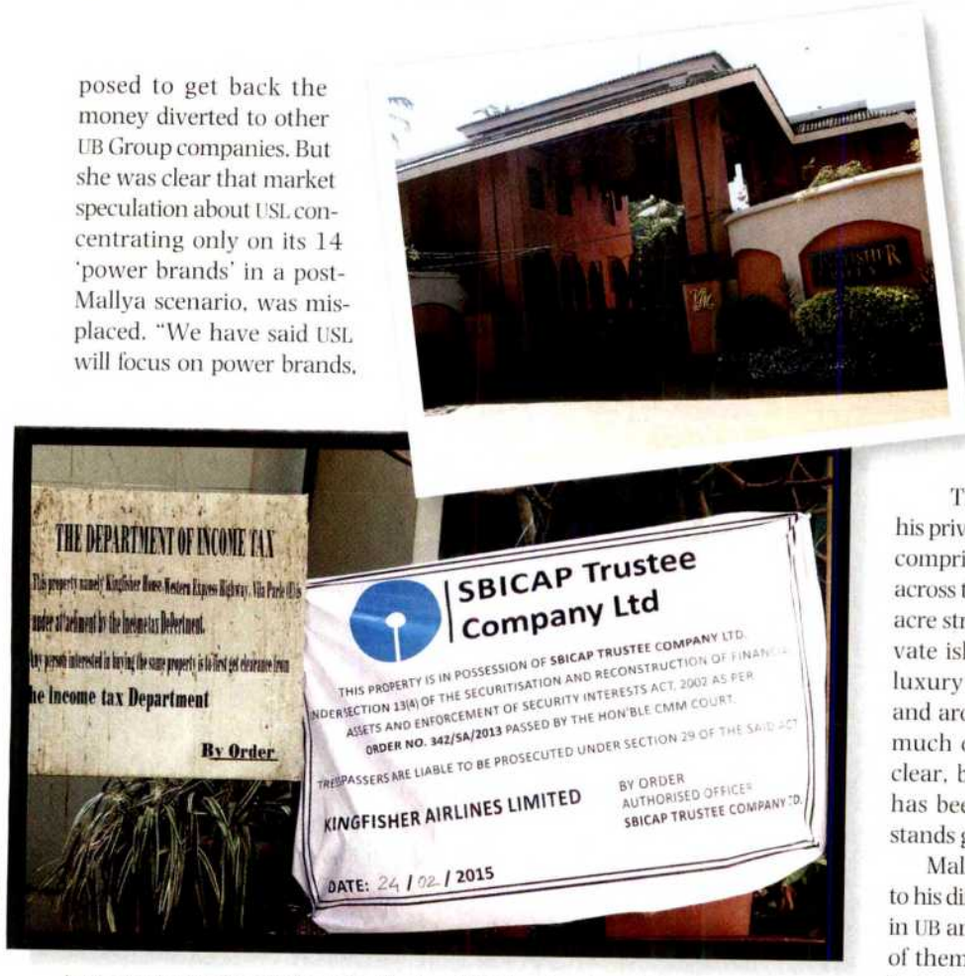
posed to get back the money diverted to other UB Group companies. But she was clear that market speculation about USL concentrating only on its 14 'power brands' in a post-Mallya scenario, was misplaced. "We have said USL will focus on power brands,




PTI PHOTO

**Locked out:** Kingfisher Villa at Goa (top) and KFA headquarters at Vile Parle, Mumbai

but there is no question of exiting what may be called low-end brands," she added. "The question of selling those brands does not arise."

If indeed Mallya is elbowed of USL, the wheel, in a sense, will come full circle for the company. It was formed in 2006 with the amalgamation of four companies, all making alcoholic beverages – McDowell and Co, Herbertsons, Shaw Wallace Distillers, and Triumph Distillers & Vinters. But at its core was the first company, McDowell, started by a Scot of the same name in the 19th century, which Mallya's father bought in 1951, at a time when many British companies were exiting India in the wake of Independence. Diageo is a London-headquartered British company too. USL will thus once again come to belong to the British.

## Rest of the Empire

Mallya may have suffered reverses but his liquor holdings ensure he is still worth several hundred million dollars. The April 13 announcement by Deepak Fertilisers that it would divest some of its holding and would ultimately liquidate its entire share in MCFL was the culmination of a two-year-long battle in which Mallya, who holds a 22 per cent stake in MCFL, teamed up with friend Saroj Poddar to ward off the hostile bidder. When Deepak Fertilisers launched an open offer to increase its holding, Poddar's Zuari Fertilisers and Chemicals, which also owned a 16.43 per cent share in MCFL, followed suit. Though Deepak Fertilisers managed to increased its stake to 31.25 per cent, it finally bowed to the joint opposition of Mallya and Poddar.

Ostensibly, the retention of MCFL is one of the few successes Mallya has had in recent years, clouded, above all, by the huge debts run up due to the Kingfisher Airlines debacle. But some number crunching by *BT* shows that going only by his assets which have not been pledged, he is worth several hundred million dollars (see *At Face Value*).

This does not take into account his private wealth, which at one time comprised 25 real estate properties across the world including a 12,000-acre stretch in South Africa and private islands in the Maldives, three luxury yachts, four private planes and around 250 vintage cars. How much of this he still retains is unclear, barring the fact that one jet has been dismantled and another stands grounded.

Mallya's wealth is primarily due to his direct holding of 27.44 per cent in UB and 4.09 per cent in USL. Both of them have been thriving. Every investor in UB would have earned a return of 74 per cent in the past three years, while USL would have more than tripled his investment.

The Vijay Mallya story is one of a swashbuckling, charismatic 28-year old, who inherited a group of companies dominating the Indian liquor market and took it to still greater heights over the next three decades. He moved into numerous other industries as well, acting almost on whim, with mixed results – pizzas, pharma, batteries, paints, fast moving consumer goods, engineering, telecom, media, mining, petrochemicals, infrastructure, hotels and finally his nemesis, aviation. His forays include Pizza King, Berger Paints, Best & Crompton, Vijay TV, Kissan Products, UB MEC Batteries, Carbonated Beverages, Hindustan Polymers, Western India Erectors, Masonelian India, Shilton Hotels, Sotiba Garments and UB Pharma. He also remains the non-executive

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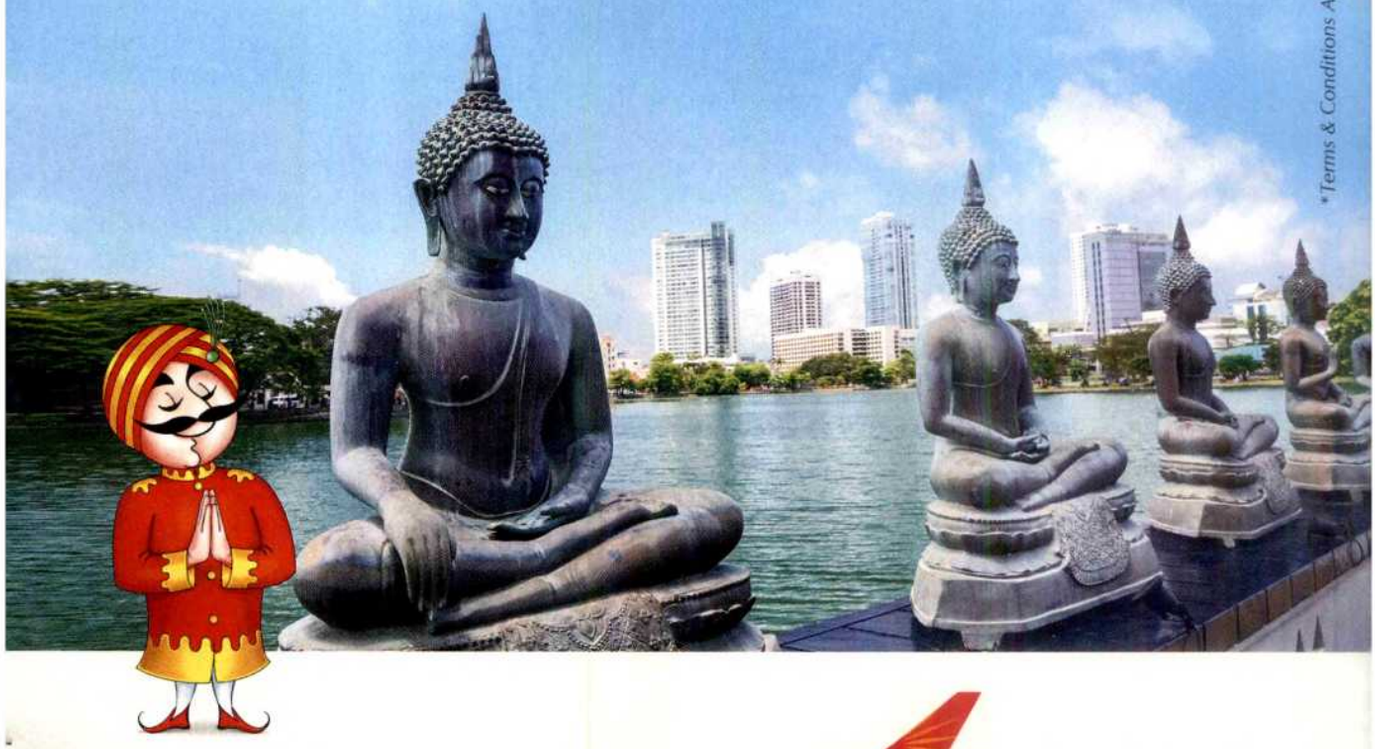

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chairman of pharma company Sanofi though he has no stake left, after having sold it earlier. (see *Cogs and Crowns*).

He had been a corporate raider, too, acquiring companies such as Berger Paints and Best & Cromptom in hostile takeovers. "There was a time when Mallya could do no wrong," says a former UB Group CFO, who worked with him in the late '80s and early '90s. "I still remember the deal he signed to acquire Berger Paints. Only after the press conference in London announcing the deal, did he ask his finance team to go out and raise the money for it. He had inked the deal without first tying up the finances. That's the kind of chutzpah he has."

Yet, whatever the fate of the other ventures, the perennially profitable liquor business always protected him. Moreover, by early 2004, he had cleaned up his act and was focused on very few sectors, till he took the fatal decision to launch Kingfisher Airlines in 2005, as a 18th year coming out gift for his son Siddartha.

## Crash Landing

There were several intimations of the coming crisis but Mallya chose to ignore them. "Even when he was advised not to persist in a business like aviation where cheques fly faster than planes, he didn't listen," says a former senior executive with the UB Group who does not want to be identified. "But that is Vijay Mallya for you. That is how he operates, both for bad and good."

Shriram Subramaniam/ Managing Director, InGovern

**"We had advised USL minority shareholders to vote against Mallya when he sought re-election as chairman last year"**

The challenges Mallya confronts are no doubt enormous. Kingfisher Airlines still owes a whopping ₹8,657 crore to a 17-member bank consortium. Lenders have already started invoking the personal guarantee that was offered by Mallya, and have already taken possession of the 17,000 sq ft Kingfisher House in Mumbai's Andheri. They may also eventually take possession of several other assets, including Kingfisher Villa located at Candolim in Goa and the two defunct helicopters. However, even if the consortium manages to take possession of all his personal assets, both in India and abroad, it may not be enough to pay off the debt that Kingfisher Airlines has accumulated over the years. Even brand Kingfisher, which was vested with State Bank of India, is worth a mere ₹6 crore now, down from around ₹4,000 crore between 2009 and 2012. This might lead to further troubles for Mallya as the lenders are considering to seek legal recourse to recover their dues. In MCFL, it is Zuari Fertilisers' intervention which has kept the company in the UB Group fold and Mallya will have to play second fiddle to Poddar. In USL, it is Diageo which will ultimately decide on his chairmanship. Most importantly, even in UB, global leader Heineken's stake of 38.85 per cent exceeds that of Mallya's. Heineken entered UB following its acquisition of UK spirits firm, Scottish & Newcastle, which had a 37.5 per cent stake in UB, in 2008. Since then it has increased its stake by buying part of Mallya's pledged shares which his creditors sold.

Mallya has been slowly trying to improve his position. He had sold 50 per cent of his South Africa-based United National Breweries to Diageo for $36 million in early 2013; in April this year, he sold the remaining 50 per cent as well for $22 million. "The money could be used to shore up his holding in UB where he feels threatened," says the former UB executive.

Mallya's son and presumed heir, Siddharth Mallya, 28, who describes himself on his Twitter account as a "future legend and terrible speller", has shown lukewarm interest in his inheritance so far. He is based in Los Angeles, and is believed to be pursuing an acting course and tweeting mostly about the performance of Royal Challengers Bangalore in the current season of the Indian Premier League. "At his age Vijay Mallya was working full time in UB. Sid just doesn't seem to be interested," says an ex-aide. "He disappears for long periods!" Mallya has two daughters as well, but they are not involved in family business. ◆

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**High flying:** UB City in Bangalore

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# FIGHT TO THE FINISH

## Flipkart vs Amazon vs Snapdeal | Quikr vs OLX | Zomato vs Foodpanda Jabong vs Myntra | Urban Ladder vs Pepperfry

## Eventually each e-commerce segment will have only one winner. Who will it be?

**In another day and age, these young men would probably have been good friends, sharing meals and drinks, generally hanging out or just getting together for parties. They are remarkably similar in many ways – in terms of education, in their shared interest in technology, in their firm belief that e-commerce provides a way to disrupt traditional retailing models while serving the customer better, and finally in their shared ambition to create companies that become leaders in their fields. Most of them are today in their early 30s, and started their entrepreneurial journeys while they were still in their 20s. A couple of them are older – in their 40s – but they too are free spirits with the ambition of building something completely new. At least half a dozen of them even studied in the same institute – IIT Delhi – at almost the same time. Over the past five years, they have built some of the best-known brands in Indian e-commerce, and raised the bar both in terms of customer service and in raising finances. A few of them run companies with a billion-dollar-plus**

ILLUSTRATIONS BY RAJ VERMA

interview with Amit Agarwal of Amazon at businesstoday.in/amazon-agarwal

valuation while others too have seen their valuations rise by the day.

They are now running companies that have collectively raised more than $7 billion of funds including the $2 billion committed by Amazon's parent. They have revenues of $683 million, and are aiming to dominate the e-commerce market that is projected to grow to $102 billion by 2020.

As it happens they are not friends but bitter rivals fighting for supremacy in different online segments. Sachin and Binny Bansal of Flipkart are 33 and 32 years old and studied in IIT Delhi and worked in Amazon, though in different divisions, before they set up India's biggest online retailer. But snapping at their heels are Kunal Bahl, 31, who studied at Kellogg School of Management and the University of Pennsylvania, and his partner and co-founder of Snapdeal, Rohit Bansal, who too studied in IIT Delhi. It is very likely all the three Bansals knew each other at their alma mater, though Sachin and Binny hardly ever mention Rohit Bansal. The three Bansals and Bahl are also fighting another rival – Amazon India's Amit Agarwal. Amazon came into the Indian e-tailing scene fairly late, but Agarwal is as entrepreneurial and combative as they can get. Talk to any venture capitalist or e-commerce observer today, and they will tell you that one of these three companies will survive, while the other two will fade away.

Mukesh Bansal and Ashutosh Lawania studied together in IIT Kanpur and set up Myntra, India's first proper fashion e-tailing company, and now part of Flipkart. Praveen Sinha got an engineering degree from Delhi College of Engineering and a management diploma from IIM Calcutta. His partner Arun Chandra Mohan is an MBA from INSEAD and a venture partner at Rocket Internet. The duo set up Jabong, which is Myntra's biggest competitor, though Bansal and Lawania refuse to acknowledge that. Jabong and Myntra have pulled away from the pack in fashion retail and are acknowledged as the two biggest players in that field. Most commentators expect one to dominate, while the other will lose out.

Deepinder Goyal and Pankaj Chaddah, co-founders of Zomato, India's biggest restaurant listings company, are IIT Delhi graduates. They are now crossing swords with Rohit Chadda, who heads Foodpanda and studied at Delhi College of Engineering and IIM Calcutta. They started out with vastly different models of business, but are now stepping into each other's territories. There is likely to be only one man standing finally after this.

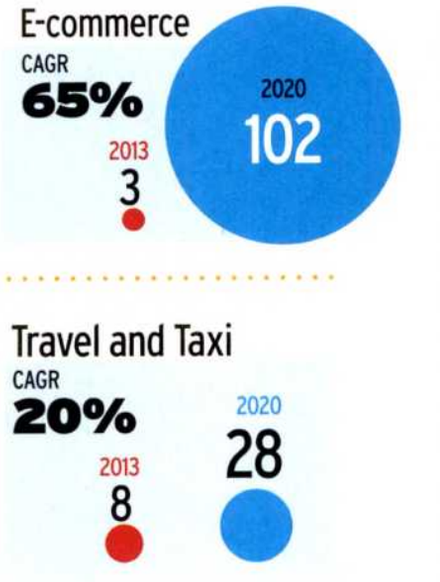
The OLX and Quikr founders are somewhat older than the rest of the lot, both aged around 40. OLX India's founder Amarjit Singh Batra spent a significant part of his career building Internet businesses. Quikr founder Pranay Chulet has donned various hats, including making a short feature film just before starting the company in 2008.

While the entrepreneurs behind Urban Ladder – Rajiv Srivatsa and Ashish Goel – are IIT and IIM graduates, their rival Pepperfry is run by Ambareesh Murty, a former eBay India country manager, and his colleague from eBay Ashish Shah.

The bitter battle for domination is because the e-commerce space globally is a winner-takes-all arena. In each category, there emerges one winner, while others fade away. That is something all the start-ups featured here know as well because e-commerce is a game of burning cash unless you become the absolute leader of the pack. It is only then that they can start making any money.

The fight has reached the crucial endgame because these companies have pulled away from the herd and now are aiming for the ultimate prize. They are also piling up losses, as they use investors' money to buy market share and customers. At some point, the money will dry up and only one winner can survive. Here's how the game has progressed so far in each market.

**RAPID GROWTH:**
**India's Internet market is projected to expand exponentially**




Source: Morgan Stanley and BT Research
All numbers in $ billion

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*Flipkart Vs Snapdeal Vs Amazon*

# THE BATTLE OF THE BIG BOYS

By GOUTAM DAS

The conversation with Amazon India's country manager Amit Agarwal begins with him dismissing his rivals. Flipkart, India's largest e-commerce company, does everything Amazon does, and vice versa, I point out. There is little product differentiation.

Agarwal snaps back. "They are a very low benchmark."

Colleagues call Agarwal a "Type A" – a personality type that psychologists say are excessively competitive, aggressive, work-obsessed, success-oriented, proactive, and mostly workaholic. Not just Agarwal. Almost all leaders we come across in India's nascent but fast growing e-commerce industry fit that description. It is becoming a slugfest.

According to a 2014 report by Morgan Stanley, three players have pulled ahead in the horizontal marketplace race. Flipkart leads with a 44 per cent share of the $6.3 billion Indian e-commerce market, by Gross Merchandise Value (GMV). Snapdeal is No.2 with 32 per cent share, while Amazon, a late starter in India – it launched in June 2013 – has 15 per cent. Amazon touched $1 billion in sales in 2014. For the company, India is the fastest-growing international market to reach that mark, in just one-and-a-half years. Amazon does not agree with the Morgan Stanley report on the difference in GMV share.

And Snapdeal CEO Kunal Bahl insists the race between Flipkart and his company is much closer. The Morgan

Interview with Snapdeal's Kunal Bahl at businesstoday.in/snapdeal-bahl

Stanley report was published in February, before Snapdeal bought FreeCharge, a mobile transactions company. "Today, if you add FreeCharge, which is a few hundred million dollars annually, it is really neck and neck," Bahl says. "Flipkart and Myntra had a five-year, $500-million, and 10,000-person head start on us. Today, it does not seem someone had a head start on us," he adds. Snapdeal started in 2010. By the time Amazon launched in mid-2013, Flipkart was already nearing an annual GMV of a billion dollars. Flipkart, meanwhile, thinks its first-mover advantage will hold good. "Flipkart as a brand has very high consumer interest. It is the most trusted online retail brand in the country," says Mukesh Bansal, the company's head of e-commerce. "We have deeper understanding of consumers. Between Flipkart and Myntra, it would be more than 50 per cent market share of all consumer transactions in India," he adds. Founders Sachin and Binny Bansal did not speak to *BT* for this article, but four company executives spoke on Flipkart's behalf.

**FLIPKART**

FOUNDED:
Oct 15, 2007

FOUNDERS:
Sachin and Binny Bansal

KEY ACQUISITIONS:
Myntra, Letsbuy, MIME360, Chakpak digital content, WeRead, Adlquity, Appiterate

REVENUES:
**₹2,846 cr** (FY14)

**AMAZON**

FOUNDED:
June 5, 2013

FOUNDER:
Amit Agarwal (started India ops)

KEY ACQUISITIONS:
minority stake in QwikCilver

REVENUES:
**₹169 cr** (FY14)

**SNAPDEAL**

FOUNDED:
February 4, 2010

FOUNDERS:
Kunal Bahl and Rohit Bansal

KEY ACQUISITIONS:
Grabbon.com , eSportsbuy.com , Shopo.in , Doozton.com ,Wishpicker Exclusively ,GoJavas, Rupeepower.com , FreeCharge

REVENUES:
**₹168 cr** (FY14)

Meanwhile, revenue figures from Registrar of Companies (RoC) do show Flipkart remains in lead. Flipkart didn't have much competition in 2007 when it started. Its founders initially thought of a price comparison website – an aggregator of e-commerce sites. But they soon realised there were hardly any e-commerce sites in India. So they founded Flipkart and it quickly pulled away from older e-tailers such as Indiaplaza by innovating and offering many firsts – 24/7 customer support, cash on delivery, as well as a return policy.

But those innovations are now commoditised. Every big player offers the same. All three also advertise aggressively on television and print to build their brand recall; they are battling to be the first to announce category launches, new services, and funding; competing for global talent while taking potshots at each other on social media.

On February 20, a picture of a Flipkart office with two receptionists and an Amazon-branded package lying in one corner went viral on Twitter. "Even @Flipkart Orders from @Amazon!" the tweet read. Flipkart responded: "We recycled said packaging as our reception's dustbin." Twitteratis screamed for more blood. "Flipkart and Amazon, go get a knife you both, let's see who wins," a post said. Amazon India tweeted: "There is a bit of Amazon in every e-commerce company."

The real knives in this battle are more dangerous than tweets. According to industry sources, Amazon India has data scientists whose job is to only execute strategic pricing that makes Flipkart bleed. Sellers on Amazon may have 2,000 refrigerators, for instance. It may offer deep discount on 300 of them. That will provoke Flipkart to discount further – and hence add up to its losses. "Amazon is using it out of design to maximise the bleeding at Flipkart. Today the game is about who has the stamina to last longer," says an industry veteran who does not want to be identified.

All three are marketplaces and sellers on their platforms don't necessarily agree to price cuts the companies want; the trio indulge in 'gap funding'. They make up the difference by paying sellers and charging the cost to promotional expenses. While companies remain tightlipped, it is widely believed that Flipkart, Snapdeal and Amazon burn more than $100 million of cash every

month. Flipkart has the highest cash burn rate but then it also raised the largest amount – some $2.3 billion so far. Snapdeal has raised close to $1 billion in 2014, while Amazon India is backed by a parent which has pledged $2 billion investment in the Indian marketplace. All will probably need even more money. To win market share, all three discount constantly and add to their already humungous losses. Flipkart, in 2013/14, ran losses of ₹400 crore whereas Snapdeal lost ₹265 crore, and Amazon ₹321 crore. Some estimates say Flipkart and Snapdeal have roughly enough cash to last out a year and a half at current burn rates. And this war is unlikely to be settled within that time period.

While all three appear largely similar to the average customers, there are subtle differences in offerings and business philosophies. "People don't go to Amazon for a crazy sale. But they do to Flipkart and Snapdeal. Amazon's philosophy is to offer a better product at everyday low price. But Flipkart and Snapdeal are seen as deep discounting sites," says Mahesh Murthy, Managing Partner at Seedfund, an early-stage venture capital company.

Snapdeal insists it is wrong to see it as a vanilla e-tailer. It says it targets the entire consumption ecosystem. "Retail in India is a $500 billion market, consumption is $1.4 trillion, and retail is a subset of consumption," says Bahl. "What comes between retail and consumption are travel, utility payments, education, financial services, etc. There is no reason a digital ecosystem should not make those more efficient," he adds. Snapdeal's acquisition of mobile transaction company FreeCharge and RupeePower, a marketplace for loans, credit cards, and financial services, is part of that overall strategy to be the big player in the consumption space, he says.

The battle of tomorrow, it emerges, will be fought on two other parameters. The rivalry will be about offering new and more selection of product and services, and faster delivery. Low prices, of course, will continue to be a primary driver but all the three e-tailers are innovating to reduce the seller's expenses. The big hope: it would induce him to sell cheaper all by himself; gap funding and, thereby, cash burn, would slow.

**"People don't go to Amazon for a crazy sale. But they do to Flipkart and Snapdeal"**

**MAHESH MURTHY**/ Managing Partner, Seedfund

Amazon has played the e-commerce game for many more years than both Flipkart and Snapdeal combined – the company was founded in 1994 in Seattle. Its India team says it has in place the most comprehensive plan to reduce cash burn. Amazon has brought in a range of seller services that have been tested in markets globally. Services such as 'Pay with Amazon' addresses payment costs. It allows sellers to use Amazon's payment infrastructure, its customer base, and the delivery addresses on their website. Traffic costs, similarly, are addressed through some ad products while 'Fulfilled by Amazon' gives sellers access to warehouse space, picking, packing, delivery, and return services. "There is a per-unit rate. All capital costs that lock up working capital have become variable costs," Agarwal says. If the seller already has a warehouse, he can just use the company's delivery logistics through a product called 'Easy Ship'. The company recently launched *Amazonbusiness.in*, a separate website for small and medium businesses to buy bulk quantities at wholesale prices. This is a business-to-business (B2B) marketplace, similar to Amazonsupply, the retailer's industrial buying venture in the United States.

"We are taking every single cost element out of the equation. That is a big driver of low prices – the only sustainable way to drive low prices," says Agarwal. "You can lower the price yourself through discounting. But you cannot afford to do it for a very long time."

While Flipkart and Snapdeal offer fulfilment services and other products to ease seller costs, neither of them has quite the bouquet Amazon does. However, both are working to offer their sellers cheaper capital.

"We are partnering non-banking finance companies (NBFCs) where sellers can source capital. We have already provided capital to more than 50 sellers as part of the lending pilot. We provide data and risk profiling to NBFCs," says Ankit Nagori, Senior Vice President at Flipkart. Snapdeal has a 'Capital Assist' Programme for seller financing. Sellers get funded through a marketplace created for them where lenders partner. CEO Kunal Bahl says the company would have assisted loans worth ₹100 crore to small businesses on its platform, and thus far, there is no non-performing asset. "The businesses borrowing are paying 100 to 150 basis points less than what they would have otherwise in the offline market. That they pass on to consumers as price benefit," he explains.

Interview with Flipkart's Ankit Nagori at businesstoday.in/flipkart-nagori

Interview with OLX's Amarjit Batra at
businesstoday.in/olx-batra

All e-tailers are aggressively stocking up on sellers and products. Snapdeal is adding one product to its selection every 10 seconds. Amazon has about 700,000 items in stock today that can be delivered the next day; about 22 million products in its catalogue overall. Both these companies have 100,000 sellers (Amazon number includes sellers on Junglee, a comparison site owned by the company's US parent). Flipkart has 30,000 sellers and plans to get to 100,000 by 2015-end. WS Retail, set up by Sachin and Binny Bansal in 2010, held most of its inventory and is the company's largest seller – it had sales of ₹3,135 crore in 2013/14. The founders have now divested their stake. And Flipkart flipped from being an inventory-led model to being a marketplace in 2013. "Flipkart is now a 100 per cent marketplace. The largest seller in different categories is not the same guy," says Nagori.

Flipkart has its eyes on the next big vertical after electronics and fashion to grow its selection. These are India's largest e-commerce categories, accounting for about 82 per cent of GMV. According to Morgan Stanley, 34 per cent of Flipkart's GMV as of 2014 is electronics, followed by 30 per cent from apparel. Now, it wants to test the market for home and furniture, says Mukesh Bansal. "There are a lot of activities planned," he says. He estimates this slice of the market at $20 billion. "Today, our furniture delivery is very difficult. The experience is not smooth. So we are looking to innovate and substantially improve the supply chain," he says. Of course, that would bring Flipkart into competition with Pepperfry and Urban Ladder, no mean warriors themselves. But that is another story.

Snapdeal is oiling the third leg of the e-commerce machine – faster delivery. Half of its orders are shipped through its fulfilment centres. That reduces time to delivery, while improving homogeneity of packaging. The company has picked up an undisclosed stake in supply-chain company GoJavas that is present in more than 100 Indian cities. "Our sales were growing faster than the capacity of third-party logistics companies," Bahl says. The stake will help GoJavas scale up while providing Snapdeal with visibility in underserved routes and capacity.

Flipkart is banking on technology and automation to do same-day deliveries, within a few hours of the order being placed, in a few categories. There is talk that the company is working with *kirana* stores, much like Amazon, but no details are known yet. "That's how FMCG will be sold in India where small and medium enterprises fulfil orders," is all that Flipkart's Nagori is willing to say.

And what of Amazon? The company recently launched a service titled 'Kirana Now' with a focus on everyday essentials delivered in two to four hours. The logic is simple: for products to reach fast, it needs to be closer to the customer. It can't get closer than the *kirana* store. "We are currently doing a pilot for 24 hours. The *kirana* store that can serve one km can now serve five km using our tools. They have software available to them that connects to the Amazon platform and we manage the logistics and after logistics," says Agarwal. This is a service that will take time to perfect and scale but Amazon, meanwhile, is tapping the *kirana* stores for a different reason as well. *Kiranas* that have excess space can now register with Amazon and function as delivery centres and pick up points for orders.

Both Amazon and Snapdeal want to unseat Flipkart as market leader. Flipkart knows that well and is trying to come up with fresh ideas to maintain its lead. The e-commerce space is unforgiving and typically only one player survives. Even funding dries up as market shares slip.

Amazon will be happy to play the waiting game, say strategists. It will wait for its rivals to burn out. This is what the company did in the US. In a recent talk, Scott Galloway, the founder of L2, a think tank for digital innovation, and Clinical Professor of Marketing at the NYU Stern School of Business, said that no company in the world has ever had access to cheap capital in a way Amazon did and now they are taking advantage of it. ▶

## OLX India Vs Quikr

# SELL IT OFF

By MANU KAUSHIK

This fight goes back a decade but it's only now that the competition between OLX and Quikr is getting fierce. The rising Internet population, changing mindset of consumers, aggressive advertising and eager investors have added up to exponential growth in the online classifieds business in the last three-four years.

The classifieds market, which was largely divided between print classified and some online players, saw a tremendous shift after 2008 when both Quikr and OLX started to focus on the Indian market. The OLX website went live in 2006, but its CEO Amarjit Singh Batra decided to analyse the market for first few years before taking a plunge in 2009. Over the years, the classifieds market

has become a battle of two. Players such as Sulekha or ClickIndia continue to exist but have fallen behind in mind space and in market share.

Both OLX and Quikr are flexing their muscles in a bid to gain traction by advertising heavily, especially on TV, using the funding they have raised from investors. "Marketing is about 75 per cent of the total cost. I can become profitable today but I have to reduce my marketing costs. I don't want to do it because if I increase my lead over others, then I can make more money in the future," says Pranay Chulet, founder and CEO of Bangalore-headquartered Quikr.

Both Quikr and OLX claim to be market leader; their fight for supremacy is borne out by the fact that online classifieds is considered a "winner-takes-all" market.

"Online classifieds work on the network effect principle. It strongly favours the winner. Because you are large, you get more buyers and hence, you get more sellers," says Chulet, who refuses to recognise OLX as competition. "We are a clear leader. Our direct competitor is 50 to 60 per cent of our size," he says. OLX, however, claims it is the leader in the consumer-to-consumer (C2C) segment with 80 per cent market share. Quikr follows a mix of business-to-consumer (B2C) and C2C model. A C2C model allows only actual consumers to post ads, whereas on the B2C platform, businesses can transact with consumers.

Globally, the same story is being played out. Take the instance of the South African media conglomerate Naspers, which owns stake in OLX India. In order to become a dominant player, it is merging its online classifieds businesses in various countries with top players. In Indonesia, for instance, it formed a joint venture with 701Search last year where Naspers owns a 64 per cent stake. It has also formed JVs in Brazil, Thailand and Bangladesh.

"The global trend has been that there is one clear market leader in every country. If you look at most western markets, they have one dominant classifieds player. OLX took a conscious call to focus on emerging markets and today we are the market leader in 25 emerging markets," says OLX's Batra.

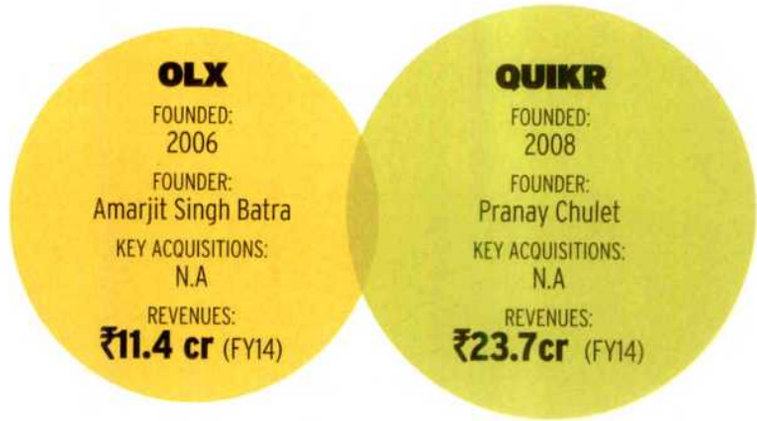
So how big is the opportunity? According to a Deutsche Bank report, the size of India's online classifieds industry was at ₹1,800 crore in 2013 and is expected to grow to ₹4,500 crore by 2018, a CAGR of 20 per cent. OLX's 2014/15 survey – CRUST – on the used goods market shows that there are

Interview with Quikr's Pranay Chulet at
businesstoday.in/quikr-chulet

₹56,200 crore worth of used goods lying idle in just 16 cities. The market would be much bigger if the entire country is taken into account.

Also, if valuation is any measure to go by, the online classifieds industry seems to have arrived. After the recent round of $150-million funding by a group of investors, Quikr is now valued at $1 billion, or ₹6,300 crore, a sharp jump from around $300 million valuation last September.

The classifieds market is divided into two parts: verticals and horizontals. Vertical companies specialise in specific segments like cars, real estate and matrimony while horizontal players (like Quikr and OLX) follow a marketplace model, much like the US-based Craigslist. From selling buffaloes, coins, gramophones to utility items such as used mobile phones,




cars and furniture, people are using such websites to sell almost everything.

While both are vying in the same space, they have taken different approaches. Quikr kept its platform free for the first three years. When its monthly unique visitors crossed 10 million, it decided to monetise the platform. It charges users and businesses for premium listings, that is, placing their ads higher on Quikr search results. "We were able to do that because of a strong grip on the market," says Chulet. "What makes a company valuable is its ability to make money. We have been making money for a couple of years and they [OLX] have not started yet."

Globally, the business model of classifieds is based on premium listings, and display ads. Premium listings usually happen when large-ticket items – real estate, cars – are involved. Quikr takes ₹300-₹400 for a listing. In comparison, a newspaper ad costs a little higher and has a shorter shelf life. Moreover, they lose out on all-India reach. "So, the cost benefit is strongly in favour of online listing. We still keep most of the website free. If I tell all users to pay us, fewer people will list with us and we don't want to do that," says Chulet. Quikr claims to have about one lakh small businesses paying for its service, and has over eight crore active listings on its website.

OLX, on the other hand, is completely free because it believes that the market is not mature enough to start monetising, and paid ads hamper user experience. Till 2012, OLX had paid listings as well but it stopped that service. However, it is not sustainable to run the website free for a long time because so much money has gone into building the business. OLX's Batra says he could look at introducing paid listings in the current financial year.

OLX says all the content is 100 per cent user generated with no involvement of brokers and merchants. OLX had about 3.6 million active ads as on May 1. Quickr allows both consumers and small businesses to use its platform.

Chulet says OLX's model is more suited for developed countries. He says that in developed economies, classified companies start with used goods, and over a period of time, people who are visiting the website start exploring other categories – real estate, services and jobs. Also, it is extremely difficult to avoid brokers. "The situation is somewhat different in China, Russia and India

**"We are a clear leader. Our direct competitor is 50 to 60 per cent of our size"**

**PRANAY CHULET**/ Founder and CEO, Quikr

where [horizontal] classified companies have to develop C2C and B2C simultaneously. We cannot just focus on C2C and used goods because cars, real estate, jobs and education [classifieds] are big categories and some vertical player will come and capture that space," he says.

However, sceptics say that the vertical classified websites offer a much richer experience. Vertical classified companies, backed by global venture funds, have made strong inroads in recent years. Companies like Cardekho, Carwale, Cartrade, Naukri, Housing, 99acres and IndiaProperty have specialised products and features that are better targeted towards end users. "Quikr will never be able to compete with Naukri. They should have focused on micro jobs (maids, cooks, and chauffeurs) which involve person-to-person interactions," says Saurabh Pandey, former COO, OLX India. Quikr has GMV of a whopping $5 billion a month.

OLX says its focus on the C2C segment has led to a substantial rise in online traffic. Its page views per month have grown from 10 million in 2011 to about 1.8 billion in February this year. Last year in March, the number stood at about one billion. Quikr is also experiencing rise in both listings and page views, partly due to its missed-call service that it launched in 2012 with an aim to take product listings on call from users who don't have Internet access.

The service fuelled the rivalry further with one accusing the other of pumping up listing by calling its users. "Other classifieds sites [are] calling our users and copying our ad content. OLX never lists on behalf of its users unlike some other players. We want people to experience the benefits of classifieds, which cannot happen if you list on behalf of the user," says OLX's Batra.

Even as both players duke it out, they agree that cultural barriers associated with selling used goods have to go away for market to grow. Since 2012, both companies have spent extensively on ad campaigns, to change the mindset of Indians who mostly sell used goods to local scrap dealers. Sometimes, they even use same catchphrases to lure potential users. For instance, in early 2013, Quikr introduced a new tagline Bech Daal, which resonated with OLX's popular Bech De campaign.

The classifieds face-off is now shifting to mobile phones with OLX getting almost 85 per cent traffic from mobiles and even Quikr has stopped thinking about the desktop version. In fact, Quikr has gone a step ahead with the launch of instant messaging app Quikr NXT, which allows sellers to chat without having to field calls from prospective buyers.

Industry experts say these two companies have just barely scratched the surface of the market. "I believe the market is still 90 per cent virgin. Even after spending loads of money, online classified companies have just two-three per cent of the total Internet user base onboard," says Pandey. Given that the action in the classifieds space has just started, the war will surely get bigger in size and scale. ▶

*Jabong Vs Myntra*

# THE SHIRT OFF YOUR BACK

**BY TASLIMA KHAN**

At fashion e-tailer Jabong, every small and big achievement is celebrated. At his Gurgaon office, Praveen Sinha, who, with Arun Chandra Mohan and others, started the company from a one-room office on Golf Course Road with less than a million dollars in the kitty, fondly remembers some of them. Jabong celebrated when it crossed its first 100 orders in January 2012; when it became the only site in India in top 10 Google search results in 2013; and when it got to one million fans on Facebook. It even celebrated the launch of its Enterprise Resource Planning software. "We used to celebrate tying up with brands that were difficult to get, especially when we were small," says Sinha, who is also the MD of the company.

Sinha might soon have another occasion to celebrate as Jabong will come under the umbrella of the Global Fashion Group, a move initiated by the e-tailer's two big global investors – German incubator Rocket Internet and Swedish investment firm Kinnevik. This alliance, Sinha hopes, will catapult Jabong ahead of its arch rival Myntra, as it can now tap into the expertise of four other leading online fashion companies around the world: Dafiti in Latin America, Lamoda in Russia, Namshi in the Middle East, and Zalora, a leading company in Southeast Asia and Australia. In addition, it can draw on the consortium's strengths in sourcing raw material from different countries; negotiating better deals with vendors as well as getting design talent for western wear from the UK and Europe. "India has enough ethnic wear designers but there aren't many who design western outfits. The merger will make it easier to introduce newer designs," says Sinha.

Interview with Myntra's Ashutosh Lawania at businesstoday.in/myntra-lawania

However, Mukesh Bansal, Myntra's founder and CEO, is unfazed. "I don't know whether that alliance will help them or not, but I know that we have become much stronger after we became part of Flipkart last year. Our distance from Jabong is increasing," says Bansal, who is also the head of e-commerce at Flipkart. "We are about double the size of the number two player now. This would most certainly reflect in the monthly numbers of the last three to four months, if not as much in the numbers for the entire year. We saw the distance increasing since last December," he says. However, at least last year's RoC figures do not show that Myntra's revenue is double that of Jabong's.

Jabong's Sinha is equally dismissive of the benefits of the Flipkart-Myntra combine. "Backend efficiency can be a strength but every merger has its own problems. It will take time to say whether it takes off."

Jabong launched its website in January 2012 while Myntra had been in business since 2007 selling personalised products before it pivoted to online fashion in 2010. By the time Jabong was on its feet, Myntra was already stocking 20,000 SKUs (stock keeping units). By 2013, Myntra had opened a second warehouse in Gurgaon, apart from the one in Bangalore and the total number of SKUs had tripled by 2013. By December 2013, both Jabong and Myntra were neck-and-neck in terms of Gross Merchandise Value touching nearly ₹100 crore a month.

## "We are about double the size of the No. 2 player... We saw the distance increasing since December"

**MUKESH BANSAL**/ Founder, Myntra

Now, both have pulled ahead of other players, and together they boast almost three-fourth market share. "There are two factors that made them stand out: execution and access to capital," says Bharti Jacob, Managing Partner at venture fund Seedfund Advisors, an investor in an early online fashion player Fetise that has since shut down.

Fashion – which covers apparel, footwear and accessories – is the fastest growing e-tail category. As global experience has shown, the largest horizontal companies have typically not dominated fashion e-tailing. Vancl is the largest online fashion store in China and ASOS rules in the UK. In India too, Flipkart, despite

Interview with Jabong's Praveen Sinha at businesstoday.in/jabong-sinha

owning Myntra, prefers to maintain that as the primary brand for fashion.

But the fashion landscape is still fairly cluttered. Myntra and Jabong might be the big daddies but there are others – Zovi, Limeroad, Yepme, etc – trying to grab a slice of the pie. There are also niche players like Zivame, which is trying to dominate the women's innerwear segment.

According to figures shared by both companies, both make close to a lakh shipments across India. The other numbers they share are also broadly similar. Jabong claims 1,500 brand tie-ups, 150,000 SKUs and pin code coverage of 12,500. Myntra claims 1,000 brand tie-ups, 160,000 SKUs and pin code coverage of 12,000. According to figures from the Registrar of Companies (RoC), Jabong has grown very fast to almost catch up with Myntra in terms of revenues. Jabong's revenue grew from ₹4.69 crore in 2011/12 to ₹527 crore in 2013/14. Myntra grew from ₹64.9 crore in 2011/12 to ₹552 crore in 2013/14.

**MYNTRA**
FOUNDED: 2007
FOUNDERS: Mukesh Bansal, Ashutosh Lawania
KEY ACQUISITIONS: Exclusively, Fitiquette
REVENUES: **₹552.27 cr** (FY14)

**JABONG**
FOUNDED: 2012
FOUNDERS: Praveen Sinha, Arun Chandra Mohan, Lakshmi Potluri and Manu Jain (Potluri and Jain have quit)
KEY ACQUISITIONS: None
REVENUES: **₹527 cr** (FY14)

Compared to them, all others are small potatoes. Zovi had revenues of ₹51.33 crore and Yepme clocked ₹61.26 crore in the financial year closing March 2014, according to RoC data.

Sinha likes to say that he does not let competition dictate Jabong except when it comes to matching discounts. "We have always been price-competitive. It has never been that someone has made a price-correction and we would sit and wait," says Sinha. Indeed, Jabong took the lead in doing several things its own way. It was the first to offer special delivery services for fashion shipments; the first to introduce features like 'Open box deliveries' that allowed customers to open the packet and see the product before making the payment; same-day deliveries in Delhi-NCR, and tracking the courier boy on Google Maps among others. In 2012, when e-commerce companies found it hard to convince traditional courier firms to offer such services, Jabong worked with start-ups like GoJavas, Delhivery and Chhotu (which closed down later).

Myntra, despite its early start, has been slow to introduce new features though it claims to be the first to offer the 'Exchange' feature for consumers who had problems with fitting. A few months ago, it also introduced direct payback into the consumer's account in case of refunds, instead of the earlier policy of having the money first credited to the consumer's Myntra account.

Jabong has also been extremely active in bringing international brands to the Indian market and forging exclusive partnerships. Founder and CEO, Arun Chandra Mohan, the former venture partner at Rocket Internet, has played a part in netting 20 exclusive partnerships with international brands, including British fashion brand Dorothy Perkins in 2012. Myntra brought the first international brand, US footwear player New Balance, in 2012. It now has brands like Adidas Neo, Supra, Replay, FOX, Sela, Soludos, Parfois, Cole Haan, Antony Morato, Gian Marco Venturi, KAS New York, selling exclusively on its website. Now with the Global Fashion Group deal, Jabong will gain a lot in terms of getting global brands on its platform faster. Global brands that are in the affordable price range of ₹1,800 to ₹3,000 have a huge market in India. "They introduce styles faster, almost every two weeks. In contrast, most Indian brands launch their season's collections once in six months," says Mohan.

In the fight to get ahead, the platforms have been vying with each other to get brands to retail exclusively on their sites. "Some brands sign yearly contracts and later move on to other sites," says an executive at Myntra. For instance, Spanish fashion brand Desigual signed an exclusive deal with Jabong in January 2013. About a year later, Desigual was lured away by Myntra for an exclusive tie-up.

For Myntra, a big advantage in the battle to get ahead is the way it can piggyback on Flipkart's logistics. "Flipkart has much higher order volumes for almost all products, and customer experience of Ekart (Flipkart's logistics arm) is also much superior to third-party logistics companies," says Ashutosh Lawania, co-founder of Myntra, who heads operations and customer experience. Myntra's in-house logistics arm used to cover 75 cities. In a year's time, Myntra, through Ekart, is now able to reach 170 additional cities. Myntra is aggressively expanding its warehousing capacity. It already has three warehouses in Bangalore and Gurgaon, with capacity of 450,000 square feet. Now it plans to ramp it up by another 300,000 square feet by the end of 2015. Jabong operates only one warehouse with packaging centres across the country.

Myntra has also taken cues from Flipkart's Big Billion Day sale, by coming

Interview with Myntra's Mukesh Bansal at businesstoday.in/myntra-bansal

Interview with Foodpanda's Rohit Chadda at
businesstoday.in/foodpanda-chadda

up with an 'End of Reason' Sale. Lawania says this helped push up traffic on the site by 15 times.

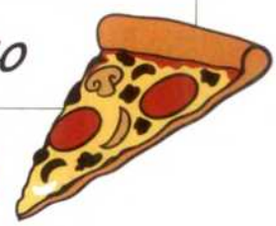
Myntra has also stolen a march when it comes to private labels (own brands created by retailers). Private labels have fatter margins of 50 to 60 per cent, compared to third-party brand margins of 30 to 40 per cent. Myntra, which has 10 private brands, each catering to a different segment, is much stronger as compared to Jabong, which has four private brands so far. Jabong's Sinha, however, refuses to accept that they lag behind Myntra in private labels. "We were the first to start with private labels, though we were not screaming about it. We were focused more on developing the right product, right quality," he says. As opposed to Myntra's home-grown design team, Jabong has a team in London with people from ASOS and the Arcadia Group to create designs for its private labels. But Myntra has also partnered international design studios like Italy based Parabellum Studio to design a range for Roadster as well as a French design studio.

Myntra's aggressive approach to private labels has kept its losses under control though. As per RoC figures, Jabong's losses grew from ₹0.68 crore in 2011/12 to ₹16.68 crore 2013/14 while Myntra's fell from ₹3.51 crore to ₹0.04 crore during the same period.

The latest weapons both have unleashed involves celebrity apparel lines. "We were the first to do co-creation," says Abhishek Verma, Head, Myntra Fashion Brands, who claims HRX is the first private brand co-created by a celebrity, Hrithik Roshan. HRX, which is among the top three menswear brands on Myntra, was launched in November 2013. Jabong reacted by introducing an "Alia Bhatt for Jabong" collection in September 2014. Now Verma is working on a Deepika Padukone collection. "Co-creations should be inspired by latest trends but should make sure they reflect the celebrities' personality well. In the case of Hrithik it is the ease of movement and fitness," says Verma. The Deepika Padukone collection, he says, will reflect her "outspokenness on women's issues and her elegance".

Both competitors believe that from now on fashion content will be the biggest factor driving transactions, but there are differences in the way they are attempting this. While Myntra had been engaging a team of fashion photographers and fashion writers and doing things like 'look books' and celebrity interviews and how-to videos to engage users, Jabong actually went ahead last year with a print fashion magazine *The Juice*. ▶

## Foodpanda Vs Zomato



# FIGHT FOR THE PIES

By GOUTAM DAS

Two years before restaurant discovery company Zomato was born, Burrp! was making quite a splash. The Mumbai-based start-up wanted to be a review site, but soon, became a destination to search and recommend food joints. *Business 2.0* magazine, a Time Inc. publication, which has now shut shop, picked Burrp! amongst the best top 30 non-US web start-ups to watch out for in 2007. And then, the founders sold the company to Network18 in April 2009.

"The acquisition did not help us," recalls co-founder of Burrp! Anand Jain. "The execution got distracted and Burrp! vacated top of the mind recall."

Burrp!'s downfall coincided with Zomato's rise – the company had a better user interface on its site and was executing well. Over time, it added an app. "The mobile app revolution had begun. Burrp! did not have an app back then. Zomato took a lead," Jain, who is now working on a new start-up WizRocket, recalls. Zomato first launched its mobile apps in 2011.

Nobody talks of Burrp! now and Zomato's frame of reference has shifted to other companies. The flamboyant founders of Zomato, Deepinder Goyal and Pankaj Chaddah, meanwhile, have been dismissive of all rivals. "Does

**FOODPANDA**

FOUNDED:
May 2012

FOUNDERS:
Rohit Chadda (India)

KEY ACQUISITIONS:
TastyKhana, JustEat

REVENUES:
**₹0.69 cr** (FY14)

**ZOMATO**

FOUNDED:
July 2008

FOUNDERS:
Deepinder Goyal and Pankaj Chaddah

KEY ACQUISITIONS:
NexTable, MapleGraph, Urbanspoon, MenuMania and Cibando

REVENUES:
**₹36 cr** (FY14)

Zomato consider websites such as Just-eat.in as competition?" someone asked on question-answer website Quora around 2012. Goyal – Deepi to his friends and enemies – replied: "We consider such websites to be substitutes." JustEat is an online food ordering platform.

Fast forward to 2015 and things have changed quite a bit. On paper, Zomato is still leagues ahead of everyone else in the food space but online food delivery company Foodpanda has picked up enormous funding and is on an acquisitive and marketing binge, making comparisons inevitable. Foodpanda's funding is almost twice that of Zomato's — while Zomato has raised funding in excess of $163 million over multiple rounds from Vy Capital, Info Edge (India) , and Sequoia Capital, Foodpanda has more than $310 million in funding.

Foodpanda acquired JustEat in February. The company has also picked up rivals in Russia, Mexico, Brazil, Europe, West Asia and other parts of Asia. Apart from JustEat, Foodpanda has acquired TastyKhana in India.

**"The guy with the most traffic will win. Zomato has the traffic "**

**SANJEEV BICKCHANDANI**/ Co-founder, Info Edge

Zomato has been on an acquisition binge too – it has acquired nine companies in nine months. Thus far happy being a discovery app, Zomato has its eyes firmly set on the food delivery market. That sets up a direct clash with Foodpanda, which is headquartered in Germany and is backed by e-commerce incubator Rocket Internet. Foodpanda, with its deep pockets, is unlikely to vacate its spot anytime soon – this race for eyeballs, the mind and the stomach of a billion Indians has all the right ingredients to make a perfect *garam masala*.

It is a huge market. According to the National Restaurant Association of India, the overall size of the food services market was $13 billion in 2013 and this is likely to grow to $78 billion by 2018. Although estimates vary, the home food delivery market hovers around $10 billion today. And food delivery is poised to become even bigger. "Delivery is very important for lunches. And people don't want to travel much these days," says Manu Chandra, Executive Chef and Partner at The Fatty Bao in Bangalore and Monkey Bar in Bangalore and Delhi.

Zomato's online food ordering feature may be new – it rolled out the feature in Delhi NCR on April 21 with around 1,000 restaurants; Bangalore and Mumbai will follow – but that has not stopped its founders from taking potshots at

Interview with Zomato's Deepinder Goyal at
businesstoday.in/zomato-goyal

Foodpanda. "We don't bother about Foodpanda. They have very low volumes," Goyal snaps, when asked about its rival.

Sanjeev Bickchandani, co-founder of Info Edge, thinks the same. "Who is getting the traffic is very important," he says. "Then comes execution and fulfilment. The guy with the most traffic will win. Zomato has the traffic."

Zomato's frantic bout of inorganic activity has ensured its presence in 22 countries. Nearly, 400,000 people in India visit the company's app and website everyday; globally, it is three million. It has 60,000 restaurants listed in India. Although relatively small in India at the moment – Foodpanda has 12,000 restaurants listed and an average of 150,000 daily unique visitors – globally, it is a large player. Foodpanda is a much younger company; it was founded in 2012 but now operates in 40 countries.

Does Rohit Chadda, co-founder and MD of Foodpanda India, agree Zomato has the lead with all its current traffic? "I don't think so," Chadda retorts. "All the restaurants they (Zomato) have do not deliver. While it still might be more than us, it doesn't effect things too much. Because it is not about having all restaurants. We prefer to keep quality restaurants," he adds. In the food delivery business, time to delivery is critical. And Foodpanda regularly weeds out restaurants that don't deliver on time.

Foodpanda is now taking the battle to the next level. Almost coinciding with Zomato's food delivery feature launch was Foodpanda's announcement to launch its own delivery services in India – in the current model, Foodpanda took orders and passed it on to restaurants who managed their own delivery. This will change with the company investing in its own logistics network. This will help Foodpanda widen the market by tapping into restaurants that can't deliver at the moment.

"Although the service is recently launched, we have already clocked 20 per cent orders and are hoping to escalate this figure to 60-70 per cent by next year," Saurabh Kochhar, CEO of Foodpanda, noted in a statement. This service is available in Hyderabad, Delhi, Mumbai, Pune and Bangalore.

Zomato does not have its own delivery network and is not considering delivery logistics right now. It is innovating in other ways. On April 23, it said it has integrated an Uber button on its app that will help users book cabs to the restaurant they wish to visit. And it has a plan ready for the delivery game – it will undercut Foodpanda in the commissioning structure. While its discovery business mostly relied on ads, food delivery is about charging a portion of the customer's bill. The founders believe Foodpanda charges way too much. "Foodpanda charges about 15 per cent on average. We don't want to do that. We will charge 7.5-10 per cent," says Goyal and adds, "This is not our core business. So we can go cheaper. This gives us incremental revenues and more satisfied customers." Foodpanda did not disclose the commission it charges restaurants; Chadda says he has not seen any undercutting war just as yet.

It is a matter of time since Zomato's appetite doesn't appear satiated. There is a poster in the company's Gurgaon headquarters where the tech team sits. "F*** Mediocrity" it cries out. And the office is replete with coffee mugs that say "Zomato 1% done". "What we have achieved is only a 100th of what we want to achieve," co-founder Pankaj Chaddah explains. That appears like a very aggressive warning to rivals. ▶

## Urban Ladder Vs Pepperfry

# KISSA KURSI KA

By MANU KAUSHIK

The devil is in the details. Back in July 2012, when Bangalore-based Urban Ladder launched its website, it was loaded with different features that helped buyers know the finest details of every piece of furniture. One of the features that caught everyone's attention was products being displayed along with a human silhouette. The purpose of this feature was to give buyers a fair idea of the height and width of furniture when compared with an average person's height. The feature became an instant hit, and within a few months, its competitors copied the idea. It has become industry standard now to display silhouettes with products.

"It took us one month to get the artwork right. Some websites which blindly followed us ended up making ghosts," laughs Ashish Goel, CEO and co-founder, Urban Ladder. Goel's jeers underline the cut-throat competition in the online furniture market where every small move by one player is forcing others to follow suit.

The online furniture market got off the ground in January 2012 with the launch of Pepperfry. About two months later, FabFurnish started and later, Urban Ladder joined the fray. Over the past three years, Pepperfry and Urban

Ladder have clearly emerged as frontrunners in the race of seven players. Pepperfry has taken a clear lead in terms of setting up its own logistics network and product catalogue. Urban Ladder, though, has more funding and has clocked revenues that are almost twice of Pepperfry's revenues last year.

Pepperfry delivers to 150 cities (using own vehicles) across the country, which is the highest reach in this segment. In comparison, Urban Ladder is present in about a dozen cities. FabFurnish's specialised logistics service FabOne, which the company launched in March, is available in seven cities, although the company is using third-party logistics firms to cover more than 100 cities.

**URBAN LADDER**
FOUNDED: 2012
FOUNDERS: Ashish Goel, Rajiv Srivatsa
KEY ACQUISITIONS: BuynBrag
REVENUES: ₹11.9 cr (FY14)

**PEPPERFRY**
FOUNDED: 2012
FOUNDERS: Ambareesh Murty, Ashish Shah
KEY ACQUISITIONS: N.A.
REVENUES: ₹7.6 cr (FY14)

Pepperfry's founder Ashish Shah says he wants to increase his reach to 400 cities. "I am single-mindedly focused on building distribution for large furniture items. Competition is not a worry for us. People are talking about logistics in 15-18 locations. I am far ahead in the race," he says. The company is looking at raising $60-80 million to strengthen its logistics network.

Logistics is crucial in online furniture commerce. Relying on third-party logistics firm does not work in the long term because no logistics firm specialises in moving large items. Packers and movers companies are good with movement of products but are weak with technology. Breakages are one of the biggest problems with transporting large items. Take the case of a large storage unit, the product tends to be fragile as it is made from wood and glass. At different stages – from factory to warehouse to buyer's house – the companies have to do quality checks. Then, there is installation. Some apartments don't have big elevators that can accommodate three-seater sofas. This problem is non-existent in other categories.

Similarly, strong focus on product catalogue has pushed Pepperfry ahead of the pack. It has close to 80,000 items spread across furniture, furnishings, kitchen, appliances and lighting. In contrast, Urban Ladder has close to 4,000 items. "I have wardrobes starting from ₹3,999 to ₹1.5 lakh. I can cater to both a BPO employee and Shah Rukh Khan. Anyone who is between 25 and 45 years of age and is in the home-making stage would buy," he says.

Pepperfry's inventory is huge due to the non-furniture items that it sells (some 70,000 SKUs) whereas Urban Ladder has only recently launched non-furniture categories such as carpets and lighting.

Urban Ladder boasts the highest funding among its peers. It has got some $78 million, and a personal investment from Ratan Tata, Chairman Emeritus of Tata Sons. In fact, the investment by Tata is seen as the biggest breakthrough for the company. "It's recognition of what we are doing," says Goel. In comparison, FabFurnish has been going slow with just about $30 million of funding available, a tad better than Pepperfry's $28 million.

Furniture is a long tail business. For instance, buying a mobile is different from a sofa. Before making a purchase, the consumer is more or less sure about the phone model (Apple iPhone or Samsung Galaxy S6) to buy. Since furniture products are not standard, a consumer wants to see various choices before buying. "That's because the buyers are not sure about the design they want to buy," says Pepperfry's Shah. He cites an example: "In a building, if there are 50 flats, each home would most likely have a different bed but some would have similar phones. If you want to win the home space, you need variety and reach. I have both."

Both Urban Ladder and Pepperfry get a significant part of their business from the furniture segment. Urban Ladder claims to sell items with much higher average ticket size than others. For example, its ticket size is ₹20,000 as compared to Pepperfry's ₹14,000. "Globally, if you look at Wayfair, a $2.5 billion company in the US, 70-75 per cent of their business comes from smaller products. Same is the case with the US-based One Kings Lane," says Goel.

To offer variety, both players have controlled the sourcing of furniture. Pepperfry works with small artisans and handicraft makers in Rajasthan, and helps them in negotiating price to procure raw materials. Besides Rajasthan, the e-tailer is evaluating the Northeast (for sourcing Rattan and cane furni-

**"When you are ahead, you don't have time to worry about those lagging behind"**

**ASHISH SHAH**/ Founder, Pepperfry

Interview with Ashish Shah at businesstoday.in/pepperfry-shah

Interview with Urban Ladder's Ashish Goel at
businesstoday.in/urbanladder-goel

ture), and Pondicherry and Kerala (for rosewood furniture).

Pepperfry's furniture business has two parts – own labels and branded business. It works with some 80 brands such as Godrej Interio, Durian, HomeTown and HomeStop. Profit margins are better in private labels. "A lot of my products would be similar to offline stores such as FabIndia or HomeTown. However, I will be at least 25-30 per cent lower priced," says Shah.

The exponential growth of the online furniture segment has attracted a lot of investments. Vertical players also expect horizontal e-commerce companies to pose threat to their growth. Snapdeal is the only horizontal player selling furniture. Flipkart is reportedly planning to enter the segment. As a result, they are building strong defensibility in the form of a supply chain network. "The real competition will come from Amazon or Flipkart because they are much bigger in terms of traffic and capital availability," says Goel.

The focus is also to keep shipping costs under control. Pepperfry's average logistics cost per item used to be ₹3,000, which has gone down to ₹450 now. "Shipping out wardrobe from Delhi to Mumbai with, let's say Gati or Blue Dart, would cost ₹6,000. My distribution network is designed in a way that it costs me much less," says Shah.

Nikhil Prasad Ojha, partner at Bain & Company, says two factors that give vertical players an edge over horizontal shopping sites are unique logistics requirement and high customer purchase engagement. "We estimate that the total online furniture sales will be around $1 billion in 2018, a rapid growth from $120-150 million last year," says Ojha.

A large part of the overall $20-billion furniture and furnishings market in India is unorganised. Furniture e-tailers know people still have inhibitions about buying large-ticket items such as furniture online. Both companies are leaving no stone unturned in this battle. A sample: A few days before Tata invested in Urban Ladder, Goel had visited his Mumbai office for a meeting. While waiting in the office, a sofa set caught his attention. He instantly clicked a photo in his phone. When inquiring about sofa, Goel was told that Tata had designed it, and that many years ago, Tata had worked with famous American designers Ray and Charles Eames when he had developed interest in designing. Urban Ladder will be launching the same sofa in next two months.

Rival Pepperfry's Shah says the marquee investment by Tata in Urban Ladder is actually an endorsement of the online furniture category rather than just the company. "We are hyper-competitive but when you are ahead, you don't have time to worry about those lagging behind," says Shah. In the e-commerce industry where pecking orders keep changing, his smugness will not cause much of a concern for archrival Goel. ◆

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MURTAZA KHORAKIWALA/
Managing Director/ Wockhardt

RACHIT GOSWAMI

Interview with Murtaza Khorakiwala at
businesstoday.in/wockhardt-murtaza

# CRACKING THE FDA CODE

**Wockhardt is trying hard to reverse its fortunes. But it will have to win back the US drug regulator's confidence.** By P.B. JAYAKUMAR

In the summer of 2013, Wockhardt Chairman Habil Khorakiwala had finally begun to breathe easy after five years of losses, asset sales, court cases and corporate-debt restructuring. During an interaction at Wockhardt Towers, the generic drugmaker's headquarters at Bandra Kurla Complex in Mumbai, Khorakiwala had said with the trademark smile that the company could well be on its path to recovery. "Such a crisis happens to organisations rarely. Probably once in a lifetime," he had said. The company had posted profits after six consecutive quarters of losses. And, from a predominantly Europe-centric business, it had just started shifting its focus to the world's largest drug market, the US.

Within weeks of the interview, in May 2013, the US Food and Drug Administration (FDA) imposed a ban on Wockhardt's plant at Waluj near Aurangabad. Barely five months later, in November, the US drug regulator banned exports from the company's L-1 Chikalthana plant. The double whammy was enough to derail Wockhardt's plans.

Over the past two years things have not changed much. Wockhardt has been struggling to comply with the FDA requirements and revive its US business. It has failed to plug loopholes in its processes, systems, management and people. On April 28, Wockhardt voluntarily recalled from the US the remaining batches of about a dozen products made at the two plants prior to the FDA bans. "The recall is to speed up addressing the FDA concerns. Revenues from these are not significant," says Khorakiwala.

Still, the company remains confident of a turnaround. "Our fundamentals remain strong, basic business strategy is the same and we have a diverse portfolio of differentiated high-value products in the pipeline," says Murtaza, the Managing Director of Wockhardt and son of Habil Khorakiwala. The 42-year-old admits it may not be possible to regain all lost business, but says the drugmaker will be back on track once the FDA gives the clearances.

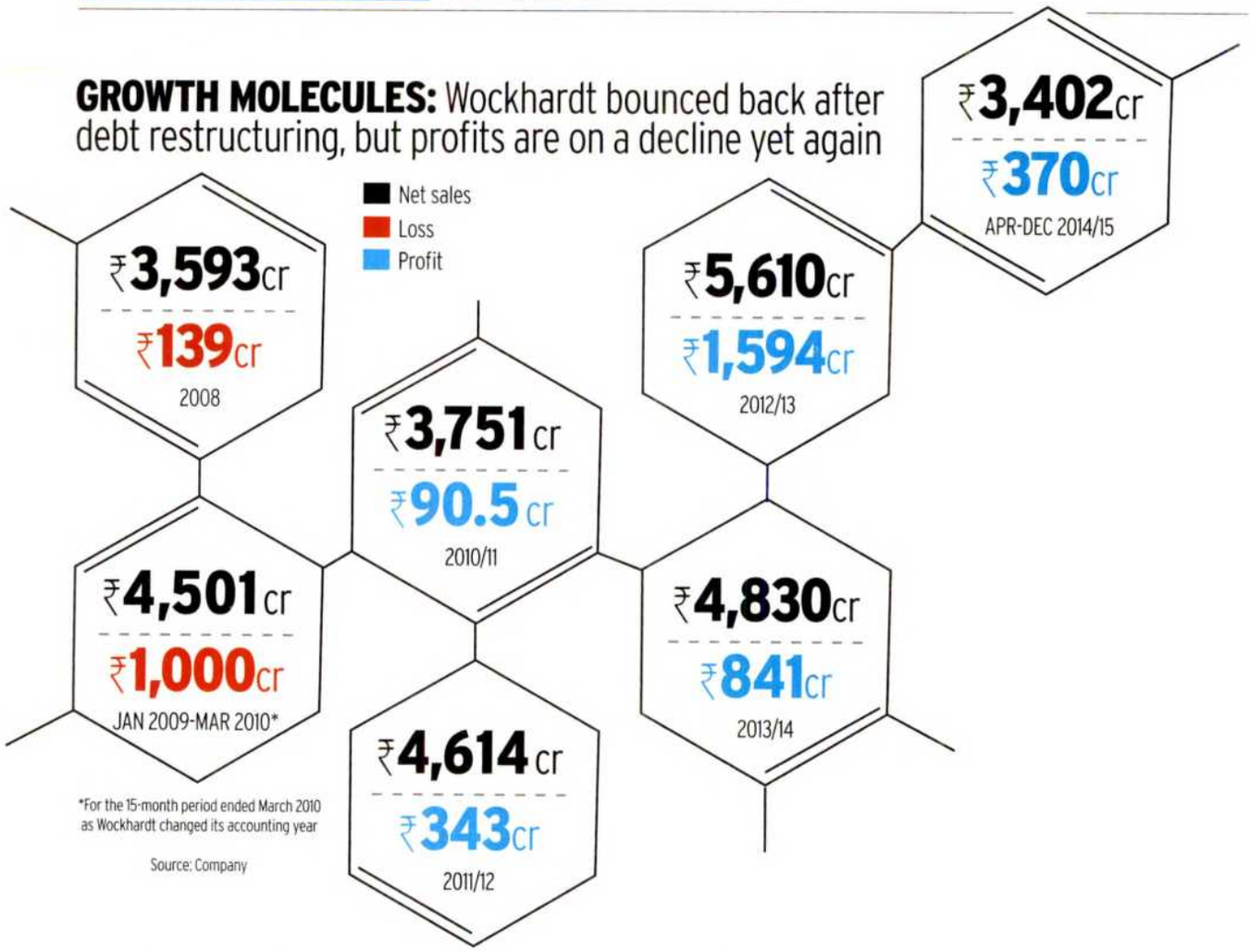
But industry observers feel it would take a lot of effort for Wockhardt to regain its glory and it won't be easy considering the company's business mix, strategies and product portfolio.

## Life Before FDA Action

Between 2008/09 and 2010/11, Wockhardt piled up debts of over ₹3,200 crore and posted losses for three years in a row. Despite that, Habil Khorakiwala was relying on the company's research and development efforts of eight to 10 years and a strategic shift in business focus to script a turnaround. To back his revival plans, Khorakiwala increased R&D investments from 3.9 per cent of sales in 2008 to more than five per cent in 2012, at a time when the global economic crisis had prompted businesses across sectors to cut costs. In fact, the company opened two R&D centres in the UK, apart from the existing units in India, taking the total number of researchers and scientists to more than 580 at the time.

In 2005, Wockhardt started work on expanding its business across continents and, unlike most of its peers, decided to concentrate on Europe. The company went on an acquisition spree in Europe and, by 2010, half of its revenues came from its overseas businesses. However, Khorakiwala soon realised that only a few markets, such as the UK and Ireland, were stable and generics lacked growth opportunities in most other European markets.

**GROWTH MOLECULES:** Wockhardt bounced back after debt restructuring, but profits are on a decline yet again




*For the 15-month period ended March 2010 as Wockhardt changed its accounting year

Source: Company

Wockhardt then shifted focus to the US and aggressively funded its expansion drive even during the financial crisis. It filed 23 abbreviated new drug applications (ANDAs) with the FDA – the highest among all generic Indian companies in 2008. It launched six drugs in the US in 2011/12 and eight more in the first half of 2012/13. Among them, Wockhardt's LEC (generic of Novartis's Parkinson's drug Stalevo), the first authorised generic, contributed a great deal to its revenues, followed by Entacapone (copy of another Parkinson's drug Comtan).

Subsequently, the company's revenues soared and its business mix changed. Wockhardt's US business contributed 41 per cent to its revenues with growth of 78 per cent in 2011/12. In the first half of the following financial year, US revenues of ₹1,081 crore stood at almost 48 per cent of its global revenues. Wockhardt's flagship product in the US, the generic for high blood pressure drug Toprol XL, gained 21 per cent market share and generated a revenue of $140 million. Wockhardt realised its potential and earned $500 million from the US in 2012, up from $100 million three years ago.

Analysts who track the US market had predicted that Wockhardt will have a compounded annual growth of 21 per cent in the US between 2012 and 2014. An Emkay research report of November 5, 2012, had observed that the company would generate $120 million in 2013 and $108 million in 2014 from the US on the back of its niche products and first-to-file (FTF) opportunities (according to US laws, the first generic company to get approval enjoys six months of exclusive sales from the date of patent expiry).

The analysts were expecting Wockhardt to gain from the sale of Metaprolol (cardiovascular drug), Divalproex (anti-seizure drug), Flonase (spray for lung-related allergies) and a slew of FTF opportunities with Stalevo, Comtan and Lunesta (anti depressants), besides Toprol and its variants.

## The FDA Blow

Things were just beginning to look good for Wockhardt when the FDA banned imports from the Waluj and Chikalthana plants. Analysts say while the first plant contributed around ₹550 crore to its turnover, the second accounted for around ₹1,430 crore. The ban covered the generic version of heart pill Metoprolol XR, which was expected to bring in a windfall for Wockhardt. "We had assumed a $100 million impact on the top line and five per cent impact on EBITDA margins for 2013/14 follow-

Interview with Habil Khorakiwala at businesstoday.in/wockhardt-hab

ing US FDA issues regarding the Waluj plant," say Emkay Global analysts Deepak Malik and Krishnanath Munde.

As a consequence of the FDA action, Wockhardt's revenues fell 14 per cent to ₹4,830 crore and net profit slumped 47 per cent to ₹841 crore in 2013/14. The US contribution declined to 27 per cent of global revenues at ₹798 crore from ₹1,783 crore in 2013/14. In the nine months ended 2014/15, revenue was down at ₹3,402 crore from ₹3,791 crore in the same period of the previous year. Net profit fell to ₹370 crore during the period from ₹767 crore a year earlier. Revenues from the US declined 55 per cent to $132 million from $304 million a year earlier.

"There have been multiple GMP (good manufacturing practices) flaws in quality control, quality assurance, documentation as well as infrastructure at the Waluj facility," says Daljeet S. Kohli and Tushar Manudhane, analysts with IndiaNivesh research.

## Hopes of Recovery

Wockhardt has been putting checks and balances in place to make the plants FDA compliant. Data processes have been computerised and a dozen experts in quality control and operations have been employed at the Indian factories. Wockhardt has also tied up with consultants, including Lachman and StepChange, to reorganise the systems. Besides, extensive training has been given to staff in manufacturing and quality control.

These actions might have helped Wockhardt gain some ground. "Our three plants are ready and we hope regulatory issues with Waluj and Chikalthana plants will be resolved during the next financial year and we will be able to start commercial production," says Murtaza. "We have lost some opportunities, businesses and it is not easy to regain that lost market share," he says, adding that the company might turn around in a couple of years.

The company can get the recalled products made by third-party vendors, but that process is time consuming. The next two to three quarters will be crucial and Murtaza expects things to get resolved by 2016/17. Now that the Chikalthana plant has the approval from the UK regulator (UKMHRA), Murtaza hopes there will be positive feedback from the US as well. The Chikalthana facility was inspected by the FDA a couple of months ago and the Waluj facility one-and-a-half years ago. The FDA has yet to inspect the new Shrenda plant in Aurangabad, which is going to be pivotal to its US ambitions. The US-based Morton Grove facility, which was also under the scanner, also got a reprieve after a recent inspection by FDA officials.

Analysts say Wockhardt's future is bright if it can address the FDA issues. The company is also expected to gain a great deal once blockbuster drugs such as Abilify, Nexium and Namenda lose patent protection in the US. The company has more than 60 ANDAs, or marketing applications, pending with the FDA.

Apart from the US, Wockhardt's other main markets are also doing reasonably well. While the Irish business declined by 10 per cent, the UK business has grown to £109 million from £80 million a year earlier. Its emerging markets business, including India, is also growing. For the nine months ended December 2014, growth was pegged at 17 per cent.

"Biosimilars, or reverse-engineered versions of biotech drugs, are going to be a major revenue earner for Wockhardt," says Murtaza. Diabetes is a major vertical for the company and it is armed with its own insulin, glargine, and delivery devices. Anti-infectives is another area the company is hoping to gain from.

The company's financial position is strong, too. Its net debt-to-equity ratio is at 0.18 per cent, helped by sale of some assets. It had a cash balance of about ₹1,000 crore at the end of the third quarter of 2014/15. The company has over 2,100 patent filings and 21 patents have already been granted. Its R&D spend increased in 2014/15 to about 10 per cent of sales.

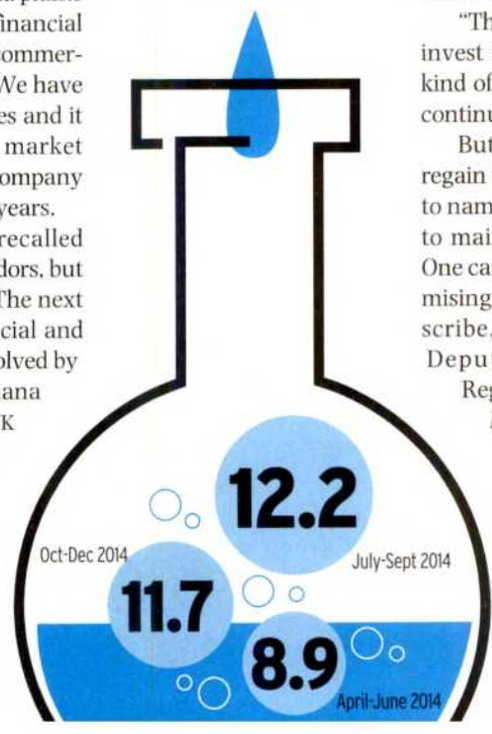
"The future will depend on how well we invest in research and identify the right kind of opportunity. That is what we will continue to do," says Habil Khorakiwala.

But has Wockhardt done enough to regain the FDA's confidence? "I don't want to name any company, but it is important to maintain the trust of the regulators. One cannot bring drugs to the US compromising on the quality standards we prescribe," Howard Sklamberg, the FDA Deputy Commissioner for Global Regulatory Operations and Policy told *Business Today*.

If Khorakiwala and his son pass that test Wockhardt may well be on the path to regain its past glory. ◆

@pb_pbjayan

**FOCUS ON RESEARCH:** Wockhardt's R&D spend in the first three quarters of 2014/15



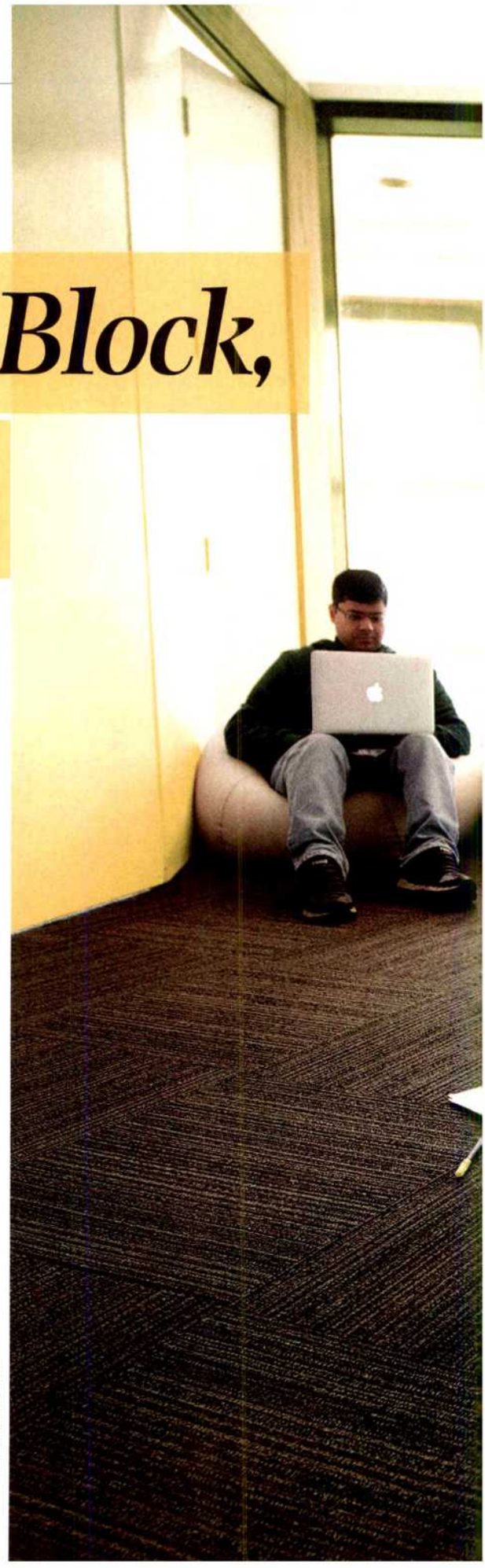
# Off the Old Block, Off Course

***Had enough of business family scions who follow in their parents' footsteps? Sunny Sen and Suveen Sinha find some who blaze their own trails.***

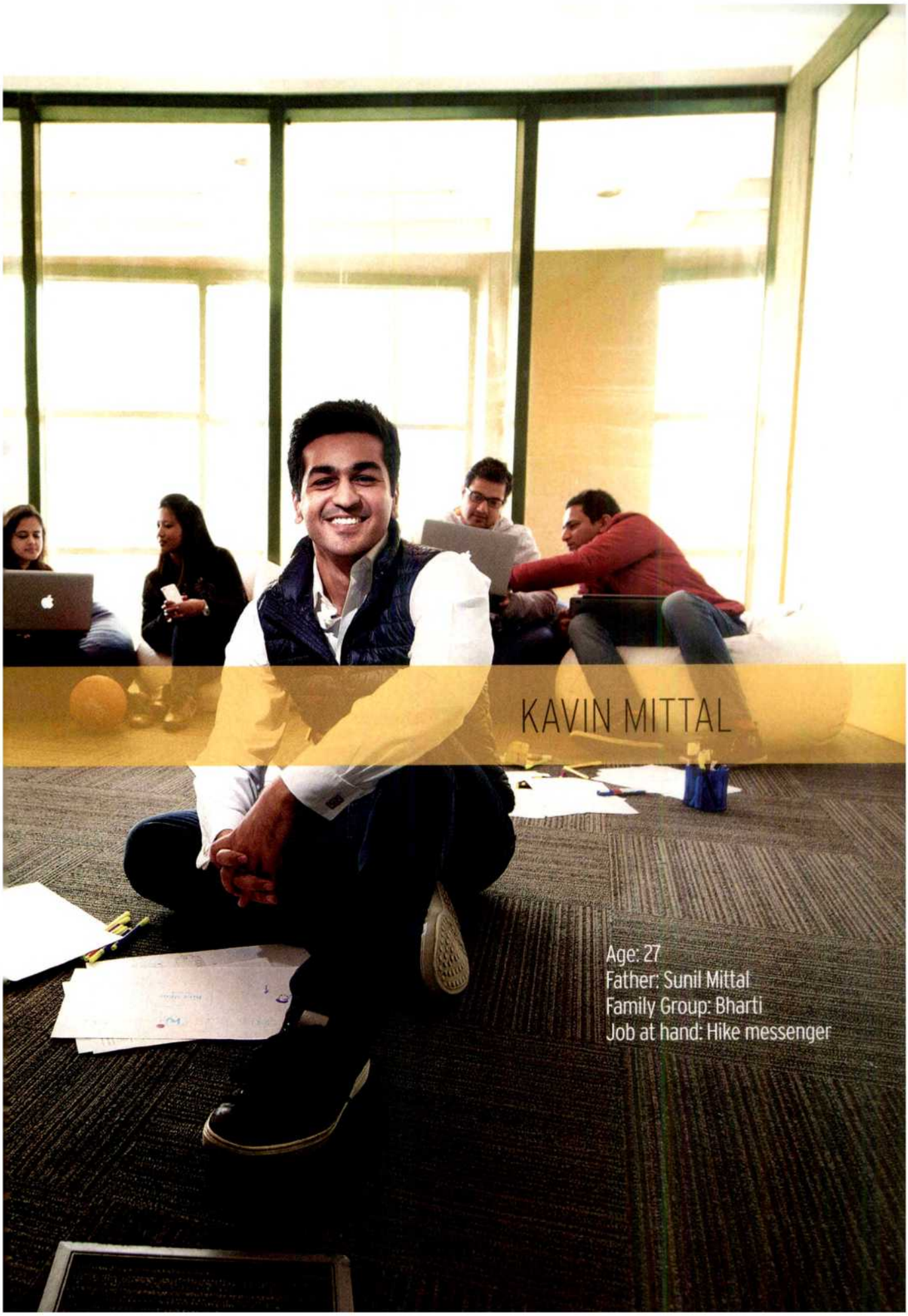
The Nasscom conference in Hyderabad looked really interesting. The only roadblock was the Class XI accounts exam that same day. It didn't take Devita Saraf much time to make up her mind. Back from school in her South Mumbai home, she spoke to her father Rajkumar and mother Vijayrani. The mother, a post-graduate from the Delhi School of Economics, was not sure. But the father, a Marwari businessman who set up and runs Zenith Computers, told Devita to go ahead and book her tickets.

"I think of exams as an insult to my intelligence," says Devita. Her intelligence comes certified – she is a member of the international high IQ society, Mensa. Yet, Saraf has subjected herself to a stern examination. Appointed Zenith's director of marketing at age 21, she chose, after just three years, to set up Vu Technologies that makes luxury television sets.

With that started a process in which she gets judged every day: is Vu the passing fad of an heiress or proof that children of business families can build successful businesses of their



VIVAN MEHRA



# KAVIN MITTAL

Age: 27
Father: Sunil Mittal
Family Group: Bharti
Job at hand: Hike messenger

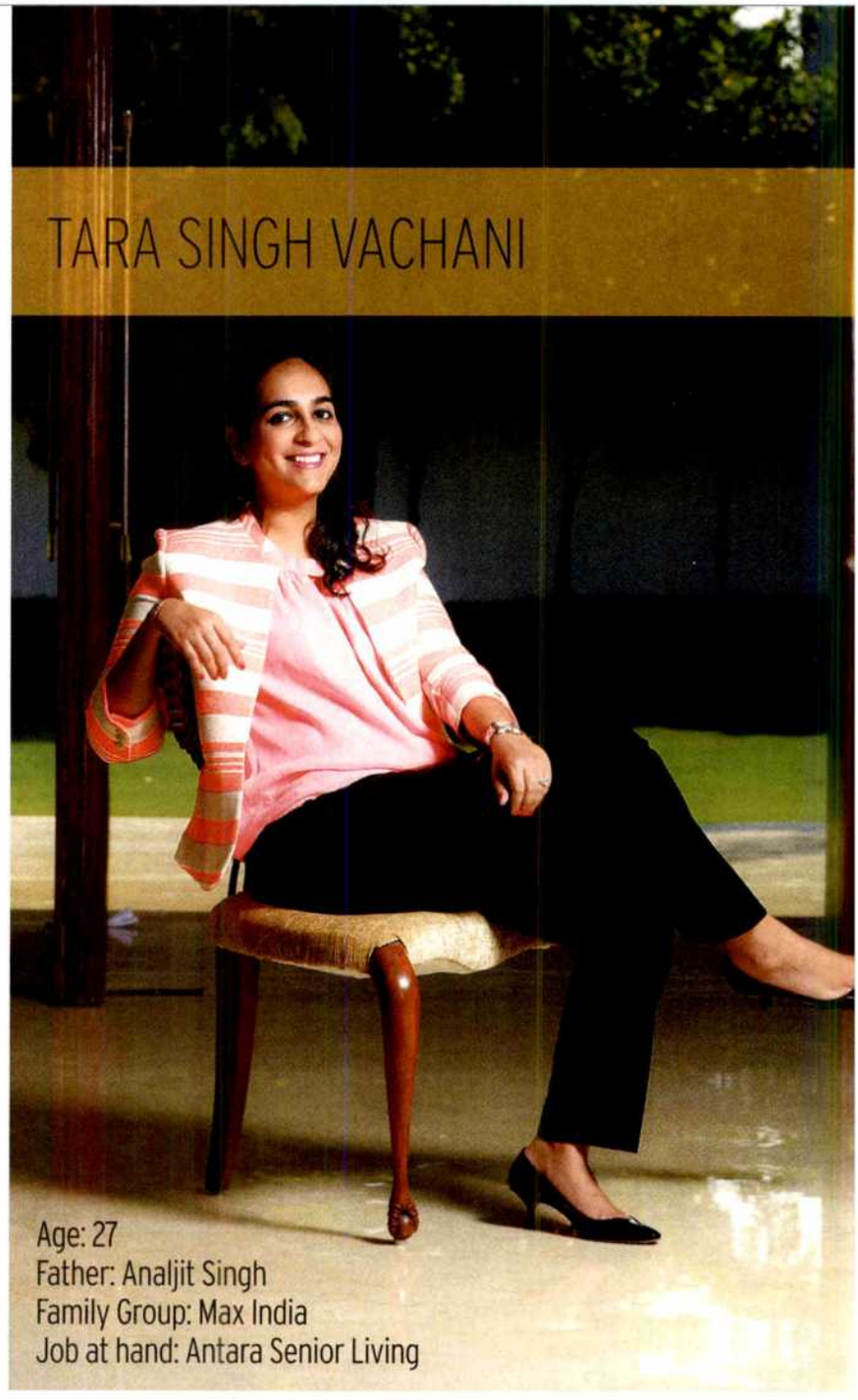
own? Increasingly, the answer may be the latter. It is nearly 10 years since Vu began and its revenue has crossed ₹100 crore in a niche area, with double digit profitability, with a team of 120, with just ₹40 crore burned so far.

As further proof of concept, children of other business houses have begun to do their own thing. Bharti Group's founder and head Sunil Mittal's son Kavin runs Hike, an instant messaging app whose 35-million user base in India is second only to Whatsapp's. And Tara Singh Vachani, Max Group founder Analjit Singh's daughter, has started Antara Senior Living, a ₹500 crore project in Dehradun for retired, wealthy people.

In India, according to various estimates, 70 to 80 per cent of all companies are family-owned. So those who opt out of the beaten track stand out and become case studies. Here we present three, though there would be many more out there.

"The trend of giving new businesses to incubate is new, but gaining popularity. It gives these people the opportunity of entrepreneurship, and at the same time reduces risk in the flagship business," says Mitali Bose, Regional Practice Leader, South and Southeast Asia, Pacific & Africa, at Hay Group.

The fathers of all three are very much active. Comparisons, therefore, are inevitable. "If the father is around, it is always a challenge," says Indraneel R. Chaudhury, Partner, Private and Entrepreneurial Client Services at PwC.




VIVAN MEHRA

## Taking a Hike

In 2010 Kavin Mittal started to spend two weeks every month in London, where he was running a start-up called Appspark, and one week in San Francisco, where he hunted for technology brains. He did this for six months, right until the end of that year, and then decided to park himself in Delhi, home to Bharti Enterprises' headquarters, because Bharti's venture with Japan's telecom and Internet multinational SoftBank had begun to take shape. Mittal closed down Appspark to run Bharti-SoftBank, which owns coupon app Hoppr and gaming outfit Tiny Moguls, other than Hike.

It helped being the son of Sunil Mittal, who had already taken Bharti into, other than the flagship telecom business, real estate, retail, insurance and infrastructure. He was also in preliminary talks with SoftBank, which was eyeing the India opportunity. "When I heard we were talking to SoftBank, I grabbed the opportunity," says Kavin.

Soon after the father and son caught a plane to Tokyo. Over dinner with Masayoshi Son, the head of

SoftBank who is regarded as one of Internet's shrewdest treasure hunters, the contours of the joint venture were discussed. Hike was launched in 2012 after more than a year's work.

It nearly shut down – twice. The first time because the platform did not support the growth in user base and the site crashed. A new platform had to be created. On the second occasion, it had to be redesigned because the earlier version did not do well on basic phones that don't quality for the 'smart' tag.

At present, Kavin is working on a plan to integrate it with the coupon and gaming businesses. Eventually he would like Hike to be a path that leads to multiple services. In that sense, it would be a technology company like Google, where Kavin had interned while in graduation.

But will Kavin match what father Sunil did, which is, to build a global company based in India? He says it is too early to make comparisons.

Today, he says, 24 hours in a day are not enough. He doesn't wear tailored suits like his father and dresses in jeans and T-shirt to work, with a casual shirt thrown over -- all its buttons open. It's a good thing he does not work for Devita Saraf.

## Out to Vu them with luxury

If you work for Saraf, you ought to take a good look at yourself in the mirror before leaving for work. If you turn up wearing jeans or sleeveless, you pay a fine of ₹500. If you show up with a stubble, go shave and come. If you are late, take the day off.

"I am a luxury technology company. If I have people coming in jeans and slogan T-shirts you are not going to buy my product. When you act anti-establishment just to look cool, you are just fitting in," says Saraf.

There may be another reason, though. Although Vu is a start-up, its veins are full of the same corporate blood as Zenith, whose promoter family, the Sarafs, owns all of Vu's equity.

The advantages are obvious, not the least of which that Saraf lives with her parents and has no need to worry about her next meal. Vu's office in Andheri East, Mumbai spans three floors, in a building that bears its name – not so usual for a start-up.

In her three years as the director of marketing at Zenith, Saraf worked closely with Microsoft and Intel. She visited the MIT Media Lab with them, and Intel's innovation lab, as well as Apple's innovation lab. She saw the New Product Development approach using human factors.

In her interactions with customers, Saraf realised that young and affluent Indians wanted a better lifestyle. So she thought of using the New Product Development approach to create products, while bringing in the best of other industries like hospitality, fashion and entertainment in the product owning experience. "As a woman, what I understand very naturally is shopping. But the whole electronics industry was male-oriented and dull."

And so one morning while coming to office with her father in their car, cheek-to-jowl with other cars on the Bandra flyover, Saraf told him about marrying high technology with luxury in a TV set. He asked her if she would like to take charge of the new venture as the CEO.

She was just 24 years old at the time and took time to say yes. About three seconds.

Apart from the quick recruitment of the CEO, there were other benefits that Vu enjoyed from the beginning. The infrastructure was already in place, as were the processes. It was like starting a business in Singapore or Sweden, and not in a country that keeps slipping on the ease of doing business index.

Right now all of Saraf's time and energy is for Vu televisions. However, once she crosses ₹500 crore in revenue, she would like to take a deep breath and wonder what to do next. There is a sliver of a chance the answer may be cars.

"We are going more and more high end. If you look at my 85-inch television, it costs ₹9 lakh, which we have sold out already," she says. That is more than the price of many cars.

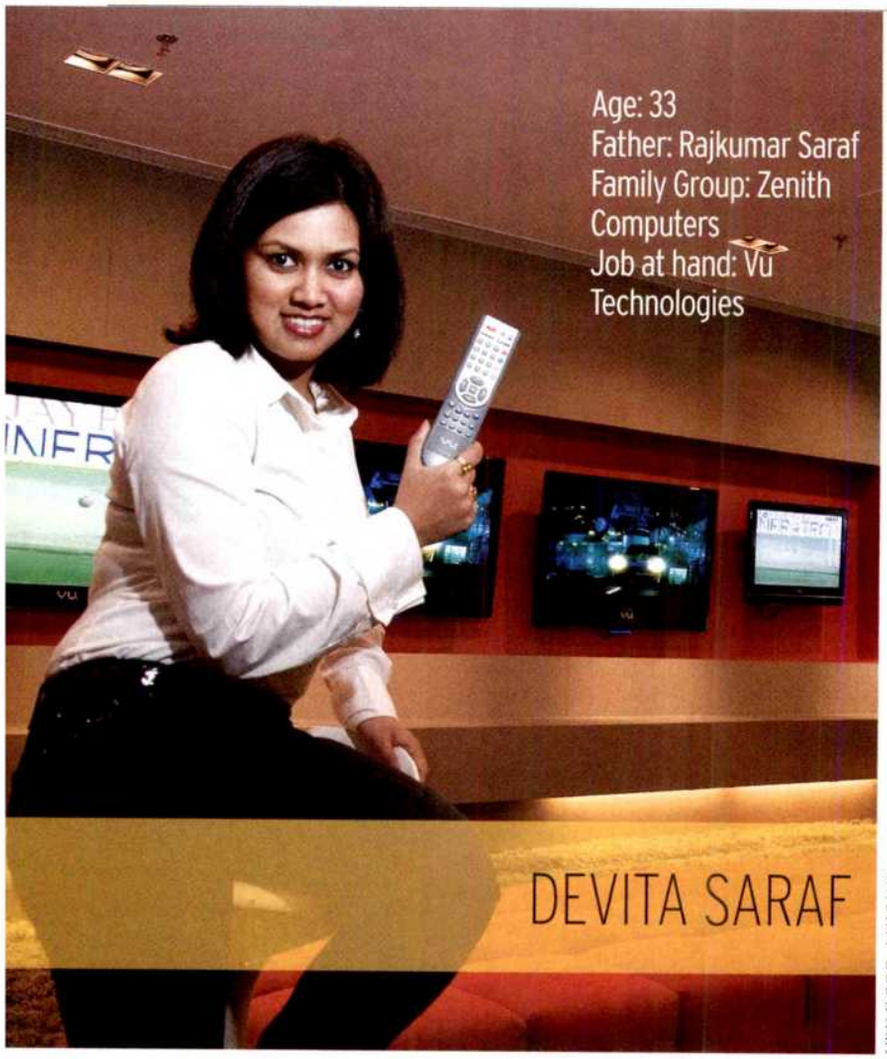
However, she won't make just any car. It will not be made on the specifications of a normal car. "I hate reverse parking. The wheels move only about 45 degrees or something. In a trolley, they move 360. Why can't the wheels of a car move 360? Basic stuff."

She will approach the business of making cars – if she ever does – with a blank canvas. "The fundamentals of building a car are 100 years old, when there were horses on the streets. These people make fancy engines, why can't they rethink the way they make cars?"

The rethinking can be endless, and great fun. Why does the driver need to sit on one side, and not in the middle? Why have a front passenger seat in a luxury sedan like Mercedes? No one ever sits in it. Why not put a laptop table there? You get the drift.

Reimagining things can be done

***Once she crosses ₹500 crore in revenue, Devita Saraf would like to take a deep breath and wonder what to do next. There is a sliver of a chance the answer may be cars***




RACHIT GOSWAMI

in different ways. Tara Singh Vachani did it by imagining a colony where old, retired people could live without having to worry about the daily chores. If they were rich enough to pay for the house and the services.

## Max Gets Real

Just as Kavin Mittal chose to do something that would fuel utilisation of father Sunil's telecom network, his friend Tara Singh Vachani's Antara Senior Living in Dehradun has resonance with one of father Analjit Singh's large businesses: healthcare.

Vachani was on a trip to Hong Kong in May 2010 when she had a conversation with the CEO of Shama, which offers high-end senior living in China. Singh realised that in India the needs were similar. She came back and discussed it with her father the idea that became Antara. It offers services that include housekeeping, laundry, car services, meals, and round-the-clock medical facilities. Her father liked the combination of hospitality and healthcare.

Dehradun appeared to be the perfect location. It has a large population of retired people. It is also a city the Singh family is familiar with. Analjit studied at the Doon School. Vachani's grand parents lived there and she visited it several times as a child. In 2012, they bought the plot.

Despite being blessed by Analjit, the idea had to go through the board. "It took us two years to do the research and prepare the plan and to be able to show that it was a viable and sensible business for Max India. We presented it to the board in 2012 and were put through the washer-dryer before being granted the approvals," says Vachani.

She now spends at least one day every week at the project, called Vaana, which is expected to become liveable in 2017, and will be followed by other similar projects by Antara. These apartments are being marketed to retired CEOs and other senior executives, bureaucrats and ambassadors.

Vaana has 217 apartments. The smallest of them is built over 1,500 square feet and is priced at ₹1.5 crore. Over the last one year there has been a lot of customisation depending on the services the buyers opt for. For example, a full service apartment would have a monthly charge of ₹78,000. A customised package, which sacrifices some of the services of the full service apartment, can be had for ₹49,900.

Vachani wants to provide facilities like a five-star hotel, so the staff is no less. "Our head of operations is from the Oberoi Group. The entire line of control is from the top three hotel chains," she says. She also wants her top three people to go the US for training in senior living.

Vachani is busy looking for properties to build more senior housing projects -- one is planned on the outskirts of Delhi. She is not in a rush, though. The plan is to have another five or six properties in the next 10 years.

Antara is a 100 per cent subsidiary of Max India, and has enjoyed the privileges that come with being part of a large, established group.

"The family will support your initiatives, and the support could be much more than just financial... It can use network support or the family's brand name for that," says Kavil Ramachandran, Professor at Indian School of Business, and an expert in family businesses. The family's network has definitely paid off. More than half of Vanaa is sold. ◆

*@SunnySen; @suveensinha*

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RAJ VERMA

# BUILD AN INNOVATION ENGINE IN 90 DAYS

## Get a reliable system up and running fast.

**By SCOTT D. ANTHONY, DAVID S. DUNCAN, and PONTUS M.A. SIREN**

Practically every company innovates. But few do so in an orderly, reliable way. In far too many organisations, the big breakthroughs happen despite the company. Successful innovations typically follow invisible development paths and require acts of individual heroism or a heavy dose of serendipity. Successive efforts to jump-start innovation through, say, hack-a-thons, cash prizes for inventive concepts, and on-again, off-again task forces frequently prove fruitless. Great ideas remain captive in the heads of employees, innovation initiatives take way too long, and the ideas that are developed are not necessarily the best efforts or the best fit with strategic priorities.

Most executives will freely admit that their innovation engine doesn't hum the way they would like it to. But turning sundry innovation efforts into a function that operates consistently and at scale feels like a monumental task. And in many cases it is, requiring new organisational structures, new hires, and substantial investment, as the "innovation factory" Procter & Gamble built in the early 2000s did.

For the past decade we've been helping organisations around the globe strengthen their innovation capabilities, and that work has taught us that there's an important intermediate option between ad hoc innovation and building an elaborate, large-scale innovation factory: setting up a minimum viable innovation system (MVIS).

We borrow the language for this term from the world of lean start-ups, where "minimum viable product" denotes a stripped-down functional prototype used as a starting point for developing a new offering. "Minimum viable innovation system" refers to the essential building blocks that allow a company to begin creating a reliable, strategically focused innovation function. An MVIS will ensure that good ideas are encouraged, identified, shared, reviewed, prioritised, resourced, developed, rewarded, and celebrated. But it will not require years of work, fundamental changes to the way the organisation runs, or a significant reallocation of resources.

What it will require is senior management attention – most critically from some member of the top leadership team. That might be the chief executive officer or a chief innovation officer, but it doesn't have to be. If you're responsible for innovation in your company at the highest level, we're talking to you. With a little help from other executives and innovation practitioners, you can set up an MVIS by completing four basic steps in no more than 90 days, with limited investment and without hiring anyone extra. And as early success builds confidence in your innovation capabilities, it will set the stage for further progress.

### DAY 1 TO 30
### Define Your Innovation Buckets

There's no shortage of terms for innovation. Sustaining innovations, incremental innovations, continual improvement programmes, organic-growth initiatives. Disruptive

innovations, breakthrough innovations, new-growth initiatives, white-space and blue-ocean strategies. But strategically speaking, all innovations fall into one of two buckets. In one are innovations that extend today's business, either by enhancing existing offerings or by improving internal operations. In the other are innovations that generate new growth by reaching new customer segments or new markets, often through new business models.

The MVIS encompasses both types of innovation, but it's critical that everyone involved in an MVIS (or any innovation programme) understand the difference between the two buckets. The failure to do so causes many companies to either discount the importance of innovations that strengthen the ongoing business or to demand too much revenue from the new-growth initiatives too early. Agreeing on what to call the two buckets is a good starting place. For the purposes of this discussion we'll call the first one "core innovations" and the second "new-growth innovations."

Innovation projects meant to strengthen the core should be tied to the current strategy and managed mostly within the main business's organisational structure. (The MVIS will keep track of them, though, as you'll see later on.) They're the projects expected to offer rapid and substantial returns in the near future and need to be funded at scale.

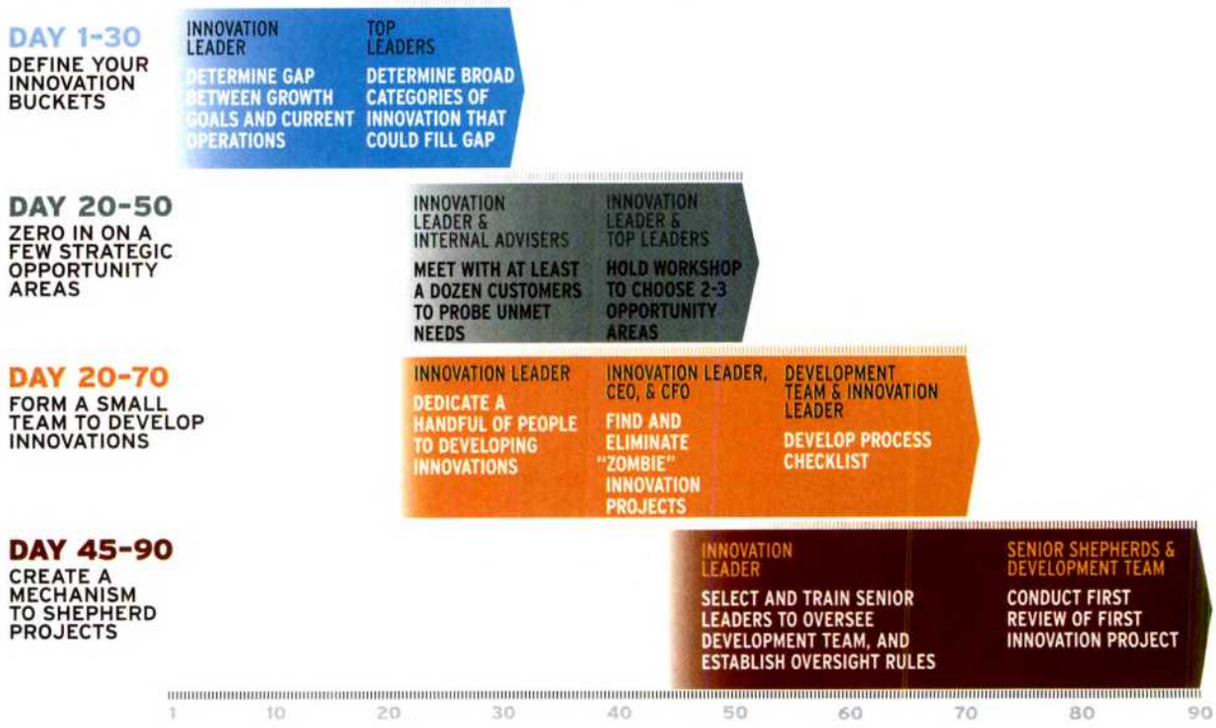
Conceivably, all your current innovation projects may be core. But what of the future? Will they be enough to enable you to reach your longer-term financial targets? If your company is typical, the answer is no. There will be a gap between your growth goals and what your current operations and core innovations can generate. It's the purpose of the new-growth innovations to fill that gap.

New-growth initiatives push the frontier of your strategy by offering new or complementary products to existing customers, moving into adjacent product or geographic markets, or developing something utterly original, perhaps delivered in a completely novel way. The larger your company's growth gap, the further from your core those innovation efforts will likely need to be, and the longer it will take to realise substantial revenue from them.

You can work up a serviceable estimate of the size of the gap if you spend up to two weeks developing rough but honest numbers for the revenue and profits your current operations will deliver in the next five years and then compare them with your five-year goals. This will give you a basic sense of what percentage of your time, effort, and resources needs to be focused on core innovation, and what percentage on new-growth efforts, and how ambitious the latter need to be.

**BUILDING A MINIMUM VIABLE INNOVATION SYSTEM**

## THE FIRST 90 DAYS



When your growth gap is fairly large, you may wish to subdivide your new-growth efforts so that you can map them to different possible directions for future growth. This being a minimum innovation effort, we suggest designating no more than three such categories.

Manila Water is a public/private partnership in the Philippines that has done a good job of mapping its core and new-growth innovation efforts to its current and future goals. In 1997, it received a concession to provide water services to the eastern part of the city of Manila, covering about six million people. At the time only about 30 per cent of the city's households had reliable access to water. In the next 16 years the company made it available to almost every home in the area and approached international levels on key benchmarks such as pressure, purity, and turbidity.

The organisation couldn't have achieved such impressive performance without being highly innovative in the way it solved the challenges of operating within the chaotic environment of the Philippines. To improve the productivity of the core, it needed to keep pursuing those kinds of innovations – which it dubbed "core optimisation."

However, in 2013, CEO Gerardo Ablaza recognised that core optimisation would not be enough to reach Manila Water's long-term growth goals. The company's calculations made it clear that over the next few years, 80 per cent of its growth had to come from outside the core.

To fill such a large gap, Ablaza and his leadership team decided that the new-growth initiatives should fall into two broad categories: The first was adjacency moves, in which Manila Water would export its core business model to other geographic markets. The second was the pursuit of new kinds of offerings entirely, beyond the core mission of providing clean water.

That move presented Manila Water with a challenge: The more novel a category of innovation is, the more it will run counter to systems and processes designed to strengthen and support the current business. The next three pieces of the MVIS puzzle help companies overcome that difficulty.

## An Innovator's Bookshelf

**Here's a list of some of the best books on innovation**

### GENERAL OVERVIEW

**The Innovator's Solution**
Clayton M. Christensen and Michael E. Raynor
Harvard Business School Press, 2003

**Creativity, Inc.**
Ed Catmull with Amy Wallace
Random House, 2014

**Playing to Win**
A.G. Lafley and Roger L. Martin
Harvard Business Review Press, 2013

**Innovation and Entrepreneurship**
Peter F. Drucker
Harper & Row, 1985

**Only the Paranoid Survive**
Andrew S. Grove
Currency, 1996

**The Innovator's Extinction**
David E. Ulmer
Create Space Publishing, 2012

**Seizing the White Space**
Mark W. Johnson
Harvard Business Press, 2010

### HOW-TO BOOKS DEVELOPING IDEAS

**Where Good Ideas Come From**
Steven Johnson
Riverhead, 2010

**Business Model Generation**
Alexander Osterwalder and Yves Pigneur
John Wiley & Sons, 2010

**Borrowing Brilliance**
David Kord Murray
Gotham Books, 2009

**Made to Stick**
Chip Heath and Dan Heath
Random House, 2007

## DAY 20 TO 50
## Zero in on a Few Strategic Opportunity Areas

Sophisticated innovators like Procter & Gamble, W.L. Gore, and Apple have elaborate processes to tie their various types of innovation to their short- and longer-term growth goals. The MVIS also does this, but in a simpler way. It makes efficient use of limited resources and productively channels innovators' passions by focusing innovation efforts on a small number of strategic opportunity areas. These are areas that fit within your new-growth buckets and seem large enough to take the needed bite out of that growth gap.

How do you pick them? You could spend months or even years conducting a comprehensive analysis, but of course we don't recommend that. Instead we suggest doing three weeks of research, with the aid of a handful of executives you expect will eventually be involved in your innovation efforts. Have them meet with at least a dozen customers, probing for unmet needs that could be the foundation of a new-growth innovation, and investigate new developments in and around your industry. Also, take a close look at new-growth efforts currently bubbling up inside your organisation. These sometimes signal strategic objectives that aren't yet getting proper attention from senior management. For example, when one financial services company examined the ideas emerging organically within its ranks, it saw that a number of them involved sophisticated analysis of customer data, even though it hadn't yet announced that "big data" would be a strategic imperative. Competitive forces and customer demands had naturally begun to attract organisational energy.

Next, lock the members of the senior leadership team in a room for an afternoon, share the findings, and instruct them not to leave until they have identified three strategic opportunity areas that each combine the following:

- A job that many potential customers need to do that no one is addressing very well.
- Either a technology that will enable customers to do that job much more easily, cheaply, or conveniently, or a change in the economic, regulatory, or social landscape that is greatly intensifying the need for that job.

• Some special capability of your company that competitors can't easily copy that will give you an advantage in seizing this opportunity.

Manila Water used those criteria to identify a number of strategic opportunity areas, including treating wastewater generated by commercial enterprises. Manila Water selected this area because it recognised that a great many enterprises across the city produced wastewater. What's more, increasing regulatory scrutiny meant that they could not continue to flush wastewater down the drain or casually dump it elsewhere, as they had been doing. As for a competitive advantage, Manila Water not only had substantial experience in treating wastewater but, as the enterprises' water supplier, already knew these potential customers well, giving it a head start in developing the best solution for their needs.

If you take care to combine all three criteria, you can avoid some of the more common innovation traps, such as pursuing a phantom opportunity only because it seems so big that there must be money in it somewhere, or wandering into a new market where you have no natural advantage. Manila Water had initially considered, for instance, whether it might expand into advertising. After all, every month it was sending out millions of paper bills, on which someone might want to advertise, and the Filipino ad market was growing. But ultimately that area was deemed too far from the company's existing capabilities to be reasonably defended against more-experienced competitors.

Identifying strategic opportunity areas will direct the energies of forward-thinking employees who might be playing with ideas at the fringes of your organisation. It also helps highlight where people might be wasting their time. After all, its corollary is that it defines what you are *not* going to do. That's something we'll focus on in the next section.

## Assessing and Testing Ideas

**The High-Velocity Edge**
Steven J. Spear
McGraw-Hill, 2009

**The Other Side of Innovation**
Vijay Govindarajan and Chris Trimble
Harvard Business Review Press, 2010

**Discovery-Driven Growth**
Rita Gunther McGrath and Ian C. Macmillan
Harvard Business Press, 2009

**The Lean Startup**
Eric Ries
Crown Business, 2011

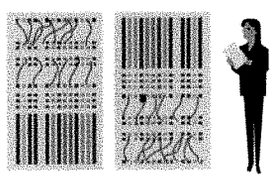
**The Four Steps to the Epiphany**
Steve Blank
K&S Ranch, 2005

**The First Mile**
Scott D. Anthony
Harvard Business Review Press, 2014

## Building Capabilities

**Building a Growth Factory**
Scott D. Anthony and David S. Duncan
Harvard Business Review Press, 2012

**The Innovator's DNA**
Jeff Dyer, Hal Gregersen, and Clayton M. Christensen
Harvard Business Review Press, 2011



## DAY 20 TO 70
## Form a Small, Dedicated Team to Develop the Innovations

Because you're trying to set up a minimum innovation capability, you may think you could layer it into your existing organisation by setting aside some time for everyone to innovate. But consider this: About 75 per cent of venture-capital-backed start-ups fail to return one penny to their investors. Fewer than 50 per cent of start-ups make it to their fourth birthday. These are businesses with dedicated teams whose members are pouring every ounce of their souls into succeeding. What hope does a group of part-timers have to beat the odds?

Even a minimum viable innovation system requires that at least one person (and typically more) get up every morning and go to sleep every night thinking about nothing but innovation. (That won't be you, though it should be someone who reports to you. As the executive sponsor, you presumably have other responsibilities as well.)

But there's no need to recruit an army. Manila Water created a three-person team to explore the first two strategic areas it identified. The team then developed a backup list of half a dozen extra opportunities that could be pursued if the first set didn't pan out. We generally recommend starting in this focused way rather than setting up a large innovation function, which often creates work for itself to justify its existence. That said, we do recommend building the capacity to handle at least two ideas at once, since there inevitably will be course corrections and failure.

Two obstacles, in our experience, may daunt companies at this stage: a lack of resources and a lack of people with pertinent experience to staff the MVIS. Here's how to overcome them:

**Free up resources.** If you're encountering the first problem, it's time to bring your invisible innovation efforts out of the shadows. The odds are high that they include "zombie projects" – walking undead that shuffle along slowly but aren't headed anywhere. Sometimes companies unwittingly spawn zombies by setting up redundant teams for core initiatives. Sometimes new-growth zombies lurk in an organisation's dark corners in unsanctioned efforts.

Finding the bulk of your zombies is a straightforward process: List all the innovation efforts that have the equivalent of at least one half-time employee working on them. Try to identify which market each idea targets. Estimate the size of the opportunity, and inventory the resources currently devoted to it. Which efforts enhance your core strategy and which focus on strategic opportunity areas? It should be fairly easy to identify the projects that are neither and are frittering away your resources.

In 2011, when Francesco Vanni d'Archirafi, then CEO

of Citi Transaction Services, pushed his organisation to track its innovation efforts, substantial duplication and fruitless efforts came to light. CTS streamlined its innovation portfolio by consolidating 75 mobile projects into 10, which liberated resources and increased strategic focus.

Identifying zombies is easier than killing them off, however. Many people find it hard to throw in the towel on a project that might somehow, someday work. And few people have the fortitude to admit that their project is essentially the same as someone else's.

As a start, consider instituting "zombie amnesty," whereby people can admit that their idea is too small, not strategic enough, or too riddled with difficult-to-address risks to justify further funding. Make it clear that there will be no penalty for purging a project. In fact, hold a celebration to honour those who do. They're heroes and should be treated as such. One round of amnesty will probably release enough resources to get your innovation team up and running, although it's a good idea to hold the exercise every couple of years to ensure that efforts haven't wandered off course.

**Learn by doing.** If your organisation is just starting to focus on innovation, it's unlikely that anyone you appoint to the team will have much experience with it. And yet we promised that you could get started in 90 days without hiring anyone. How?

Over the years, innovation thinkers and practitioners have offered up a wealth of best practices aimed at making new-growth innovation as orderly as the processes for manufacturing and marketing mature products. Companies like Intuit, Syngenta, and General Electric have elaborate systems to spread those practices throughout their organisations. In essence these systems combine some formal training with immersion in an actual product-development experience. A simpler version of this is an effective starting point for a neophyte MVIS team.

As experienced innovators, we use process checklists to make sure we haven't left out any critical step. (See *Are We Following the Best Practices?* for an example.) Those newer to innovation can do the same. Have your team devour the literature of best innovation practices and develop its own checklist, hang it on the wall, and refer to it frequently. (For some of our favourite books, see *An Innovator's Bookshelf.*) The team members will develop their skills as they work through problems, but the checklist will help ensure that they don't go off the rails in the meantime.

A nonprofit, the Settlement Music School, used this approach to reach new student populations in inventive ways. Founded in 1908, SMS offered classes in jazz and classical music to 5,000 students – primarily children – weekly in the Philadelphia area. Executive director Helen Eaton hoped to transform SMS's facilities into a "third place," like a house of worship (or a neighbourhood Starbucks), that could provide adults with a sense of community. After dividing her innovation ideas into core and new growth, she identified four strategic opportunity areas she called "best in class," "community arts changes lives," "innovation meets changing needs," and "smart solutions for sustainability and growth."

Led by community engagement manager Joseph Nebistinsky, a small team of innovators, which included several branch and department directors, began to conceive of new offerings in the "community arts changes lives" area, using our best-practices checklist. After two days of training, they went into the field to interview prospective customers about what offerings might enrich their lives. In his discussions, Germantown branch director Eric Anderson saw a recurrent theme: a desire for adults to reclaim their youth, meet new people, and dust off that guitar they'd stopped strumming in college. What if we created some way for adults to jam together in a band, he wondered? The team drafted a three-page brief outlining the idea, which ultimately became known as "Adult Rock Band."

In an initiative so far from SMS's core, many uncertainties needed to be resolved. How would the school attract students? What type of music should they play? One hook could be a culminating concert where the jam band would perform, but maybe the programme should more open-ended, with no big event?

## Are We Following the Best Practices?

**As experienced innovators, we use checklists to make sure we haven't left out any critical step. These lists contain questions we ask when considering an investment or advising a new-growth innovation team. You can use them for the same purposes – or as a starting point for developing your own checklist**

**1**
**Is innovation development being spearheaded by a small, focused team of people who have relevant experience or are prepared to learn as they go?**

**2**
**Has the team spent enough time directly with prospective customers to develop a deep understanding of them?**

**3**
**In considering novel ways to serve those customers, did the team review developments in other industries and countries?**

**4**
**Can the team clearly define the first customer and a path to reaching others?**

**5**
**Is the team's idea consistent with a strategic opportunity area in which the company has a compelling advantage?**

**6**
**Is the idea's proposed business model described in detail?**

Like seasoned innovators, the team laid out the assumptions underpinning a complete business model, which included how the programme would be designed, marketed, and delivered. The idea was that a group of like-minded adults would come together and practise under the tutelage of an expert instructor. The class could continue indefinitely, separated into 10-week sessions; at the end of each session the band would hold a concert in the school's performance space. As instructor Ed Wise told a local publication, "There's something good for the soul about strapping on the old Fender and banging out a few Jack Bruce lines."

Would that work? The members of the team had spent enough time with customers to be confident that Adult Rock Band addressed a real market need, and their back-of-the-envelope analysis showed that the programme would break even if an individual branch could attract just eight participants. They set out to test the idea by running a pilot at a single branch and then expanding to two more.

The programme did well at two branches but struggled at the third. Rather than walk away from the perceived failure, the school did a careful analysis. It showed that SMS needed to fine-tune the classes to the socioeconomic makeup of its local branches, taking into account each community's musical traditions, cultural traditions, and social networks. As the school continued to innovate and look into why certain programmes took hold in one community and not in another, the MVIS team found it could begin to predict the success rates of new offerings. Its success helped SMS earn a coveted grant from the Pew Charitable Trusts to support further investment in innovative programmes.

**7**
**Does the team have a believable hypothesis about how the offering will make money?**

**8**
**Have the team members identified all the things that have to be true for this hypothesis to work?**

**9**
**Does the team have a plan for testing all those uncertainties, which tackles the most critical ones first? Does each test have a clear objective, a hypothesis, specific predictions, and a tactical execution plan?**

**10**
**Are fixed costs low enough to facilitate course corrections?**

**11**
**Has the team demonstrated a bias towards action by rapidly prototyping the idea?**

## DAY 45 TO 90
### Create a Mechanism to Shepherd Projects

If you have robust planning and budgeting systems, by all means use them for your core innovation efforts. But new-growth innovations call for an approach that borrows from venture capital practices. Any entrepreneur who's been backed by VCs will tell you that they operate within a system that's just as disciplined as a traditional corporation's annual budgeting cycle. But it's a sharply different discipline, one designed to manage strategic uncertainty.

Begin by forming a group of senior leaders who, from then on, will have the autonomy to make decisions about starting, stopping, or redirecting new-growth innovation projects. Don't just replicate the current executive committee, however. If you do, it will be too easy for group members to default to their corporate-planning mindset or to let day-to-day business creep into discussions about innovations meant to fulfil long-term goals. Manila Water, for instance, picked four members of its top management team to serve on what it called the New Services Review Committee, which met every few weeks to help teams working on new-growth ideas.

In overseeing projects, this group should copy some standard VC operating procedures:

- Venture capital partners often disagree about investment opportunities. In fact, seasoned VCs will tell you that the best investments are the most polarising. Every project in your MVIS should have a senior executive sponsor or champion who believes in it deeply, but you shouldn't require approval from the entire shepherding group to go ahead.
- A decision to invest in a start-up is considered very carefully, but most day-to-day spending decisions are left to the start-up's CEO. Corporate innovation shepherds should set a threshold investment amount that project teams can spend themselves without asking for leadership approval.
- Major VC funding doesn't follow quarterly or annual budget cycles. When a start-up resolves a key risk, it gets further investment. (In Manila Water's case, for instance, significant expansion capital was contingent on commercial clients' signing water treatment contracts, rather than just saying they would.) And when a big issue arises, the board of a venture-backed company gathers within 36 hours. You should ensure that your shepherds are likewise capable of assembling and making decisions that quickly.

Venture capitalists, of course, don't need to concern themselves with integrating their start-ups into a larger organisation. Corporate shepherds, by contrast, are responsible for helping strengthen their whole organisation's innovation capabilities.

This is something that Mary Jo Haddad, who was the CEO of Toronto's Hospital for Sick Children from 2004 to 2013, understood when she kicked off a major innovation effort there in 2010. Haddad created a shepherding mechanism: an 18-person cross-functional team called

the Innovation Working Group, which was armed with $250,000 in funding. The IWG helps innovators understand the needs of users, test prototypes, make adjustments, and then build scale. It also works to identify latent organisational innovation talent by running workshops that gather ideas from staff, patients, families, and the public and gives employees with promising proposals the opportunity to step out of their day jobs for a while to push their ideas forward. Equally important, the IWG runs an annual Innovation Expo, which celebrates innovators who experiment with new ideas, regardless of whether they succeed or fail.

While an MVIS approach avoids the arduous work of rewiring a company's systems for performance management, budgeting, and supplier management, it has a downside: It requires senior leaders to get involved in those issues on an ad hoc basis. For instance, at one organisation a high-performing employee was in danger of losing a promotion because the innovative business she was helping build didn't cross a revenue threshold set by corporate HR's advancement policies. But her responsibilities were at least equal to those of many others who did qualify for promotion, and there were clear signs that, managed appropriately, her business could deliver substantial long-term revenue. Her unit leader stepped in to preempt the HR decision.

You might not want to spend time mired in these types of discussions forever. So at some point you may wish to integrate an MVIS into the broader organisation – the subject of the next section.

## Scaling Up the MVIS

At the end of 90 days, you should have established your broad innovation buckets, identified your strategic opportunity areas, assembled a team that has started on its first project, and created the shepherding mechanism to speed the team on its way. Once you have the MVIS in place and see signs that specific projects will bear fruit (which may occur within the first few months or may take longer, depending on circumstances), it's time to consider next steps.

First, consider hardwiring the components of the MVIS that are working well into more-formal systems. Manila Water created a master plan of innovation efforts, which forecast the pace and scale of its investment activities and their financial impact over a multiyear period. CTS assigned individuals to oversee certain processes and created tracking tools to enable them to regularly monitor the portfolio of innovation projects. Though such efforts can feel like creeping bureaucracy, they're part of the natural maturation of innovation as an organisational capability.

Second, consider creating specialised functions to carry out parts of the innovation process. A small organisation might, for example, assign a single person to act as a "scout," keeping abreast of market changes. A large one might establish a business development team that looks for opportunities to form partnerships and alliances to amplify new-growth efforts. Or it might form groups to conduct ethnographic market research or develop rapid prototyping techniques.

Finally, work on the MVIS should highlight some of the larger barriers to innovation inside an organisation. These often reside within corporate budgeting, incentive, and strategic-planning systems, which, after all, are designed to further today's business, not create tomorrow's. Rewiring those systems or establishing robust parallels presents substantial challenges but is critical to scaling up and spreading innovation efforts.

**A DIVISION OF A MASSIVE** financial services company. A leading paediatric hospital. A water utility in an emerging market. A 100-year-old nonprofit. The organisations we've highlighted here are in different industries, have different missions, and operate in different contexts. But they share a problem faced by countless organisations around the globe: How do we start to make the magic of innovation more systematic and strategic? It is a daunting challenge. We conclude with three pieces of advice:

One area that absolutely cannot be shortchanged is personnel. If you have no one fully focused on new growth, you've decided not to focus on new growth

- Remember, the "S" in MVIS stands for system. You can't pick and choose between the four elements described above. Do everything, or do nothing.
- One area that absolutely cannot be shortchanged is personnel. If you have no one fully focused on new growth, you've decided not to focus on new growth.
- How you treat failure is more important than how you reward success. Hiding or fearing failure spawns projects that never die and that suck up all your capacity for innovation.

Creating an MVIS won't miraculously turn you into Pixar or Amazon, but it will help you make tangible progress in increasing the predictability and productivity of critical investments in future growth. ◆

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# Platforms and a New Age of Monopolies

*Think disruptive Internet companies – Facebook, Airbnb, Uber – and a common thread is they use the platform business model.* **Sangeet Paul Choudary**, *founder and CEO, Platform Thinking Labs, and Co-Chair, MIT Platform Strategy Group, explains to* **Chitra Narayanan** *how platforms will become critical for businesses*

**What exactly is platform thinking?**

Traditionally, businesses worked on a very linear model. Firms would assemble and deliver products and services to a market of consumers. Producers and consumers held very distinct roles. And this value creation happened inside a firm and was managed through a hierarchical organisation. This was because value creation required the aggregation of resources and processes.

The real business impact of the Internet is that it now allows this aggregation to happen in a much more distributed manner. They do not need to be aggregated inside a firm any longer. This is giving rise to platform thinking. We're seeing companies like Flipkart and Snapdeal bring together an entire ecosystem of merchant partners and companies like Redbus using platform thinking to aggregate a highly inefficient and fragmented transportation market.

The Internet, today, provides an opportunity for businesses to create a platform and leverage an external ecosystem of producers to create value. This, in turn, allows the businesses to create and own entirely new markets when consumers come on board. It's giving rise to a new age of monopolies that do not exercise power through control over physical resources but through orchestration of digital and physical resources using data.

**Will the platform model overtake all others?**

I believe that as platforms become more popular, the really large plays will be in becoming platforms while a host of smaller companies will co-exist around these platforms and operate in various niches. We already see this with YouTube that has allowed a host of new media houses to spring up that distribute exclusively through YouTube. Or Airbnb, which has allowed anyone with a spare room to run a B&B. Elance-Odesk or Freelancer allow people to turn to freelancing by offering them access to a market.

So platforms are going to be the really big plays but there is every reason for inventory-owned companies to co-exist. A platform approach helps companies create an infrastructure for all these other companies and benefit from owning all these interactions.

**How can companies change their linear model and adopt a platform approach?**

The first step a traditional company needs to take is cultural. It needs to create a culture of data acquisition. All companies today have a culture of revenue acquisition. The sales reps who get in revenue are incentivised accordingly. The companies will need to move to creating a culture of data acquisition as well. As com-

panies like LinkedIn demonstrate, the more data you acquire, the more ways you can make money. LinkedIn acquires way more data from its users than Monster ever did, and this helped it create a much larger job market than Monster's.

The second change that the companies need to bring is infrastructural. They need to restructure their internal systems to be more data-porous. Today, most organisations use IT but they work in silos. There is minimal data exchange between units internally, a recipe for disaster. Companies need to move towards adopting internal APIs that allow the exchange of data and information internally between business units.

A combination of data acquisition and data porosity is the most important step towards moving to platform models. The companies that acquire and leverage data well will find new ways of understanding their users and allowing them to participate in the business in new forms. Toyota, GM and Ford are becoming data acquiring companies. Their cars constantly stream data about usage and this helps them better predict after-sales service and also allows them to monetise this data by selling it to insurance companies.

**Isn't the platform model a bit risky given that it is only as good as the users who gather to use it?**

> The Internet, today, provides an opportunity for businesses to create a platform and leverage an external ecosystem of producers to create value

Yes, and this is why you need to be very careful about the kinds of users and partners you attract. This can be done in various ways. Some platforms restrict who can get access to start creating a culture gradually among its users. Think of Facebook restricting usage to Harvard, and subsequently to other Ivy Leagues, or Quora getting initial traction in Silicon Valley. Platforms also invest in regular user education and culture-creation initiatives. Airbnb trains its hosts regularly on best practices.

On the flip side, we've seen platforms like Chatroulette being overrun by the wrong kinds of users and dying an early death. It was as anonymous video chatting platform and the anonymity made way for all forms of unpleasant encounters, leading to users leaving the platform.

To ensure that the right users come on board, plat-

forms need to start with a closely controlled launch, keep curating user access on an ongoing basis and ensure that they invest in user education and culture.

**How do you scale up platforms?**

Platforms scale very well for a multitude of reasons:

**Network effects:** This is the most important driver for platform scale. More production activity on the platform attracts more consumption, which, in turn, attracts more production. This is a self-reinforcing virtuous loop that scales the platform. More ride availability on Uber attracts more travellers, which, in turn, attracts more drivers, leading to higher ride availability. We see this with most platform business models.

**Near-zero marginal costs:** The Internet has always allowed near-zero marginal costs of distribution. That is why the news industry got disrupted because the cost of distributing an extra unit of news (a news article) over the Internet, is nearly zero. This helps digital businesses scale in general. But platforms scale even better because they also benefit from near-zero marginal costs of creation. If a hotel has to add more rooms, it has to create buildings, own rooms and service them regularly. Airbnb can add more rooms at near-zero marginal costs of adding a new room. This is why non-inventory-based models like platforms scale so well.

**Virality:** A unique phenomenon of networks where users of a product or service help spread that product or service by spreading content about it. Instagram grew viral because new users came to know of it every time someone clicked a photo on Instagram and shared it on Facebook. Platforms benefit from strong virality and this helps them scale even faster.

**You have applied rules from gaming in the platform thinking approach. How does that work?**

The platform thinking approach needs to ensure that every individual is appropriately incentivised to create value. As long as every individual user is appropriately incentivised to participate on Facebook, the news feed for all users remains fresh and active.

In *The Wealth of Nations*, Adam Smith observes: "Every individual... intends only his own gain, and he is... led by an invisible hand to promote an end which was not part of his intention... By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it." This is an interesting observation that shows that larger goals of societies and economies can be achieved by ensuring profitable work at the individual level.

> ... When you're getting millions of users and partners to co-create value for your business, you need to ensure they are appropriately incentivised at an individual level

This 'invisible hand' applies really well in implementing platforms. When you're getting millions of users and partners to co-create value for your business, you need to ensure they are appropriately incentivised at an individual level. While society has always worked this way, our firms have been managed by iron-fisted internal control, not by an invisible hand that assures larger goals by ensuring individual incentives.

In the absence of great business literature on architecting such incentives, I turned to studying game design where the invisible hand phenomenon plays out. Small, seemingly innocent actions, by every individual player in an MMORPG (massively multiplayer online role playing games) are designed in a way that the gaming environment and conditions change in real-time for the good of all participants. Designing games is probably the closest analogy to designing activity on platforms. There are some rules of play but most outcomes emerge from a combination of rules and carefully incentivised user actions. ◆

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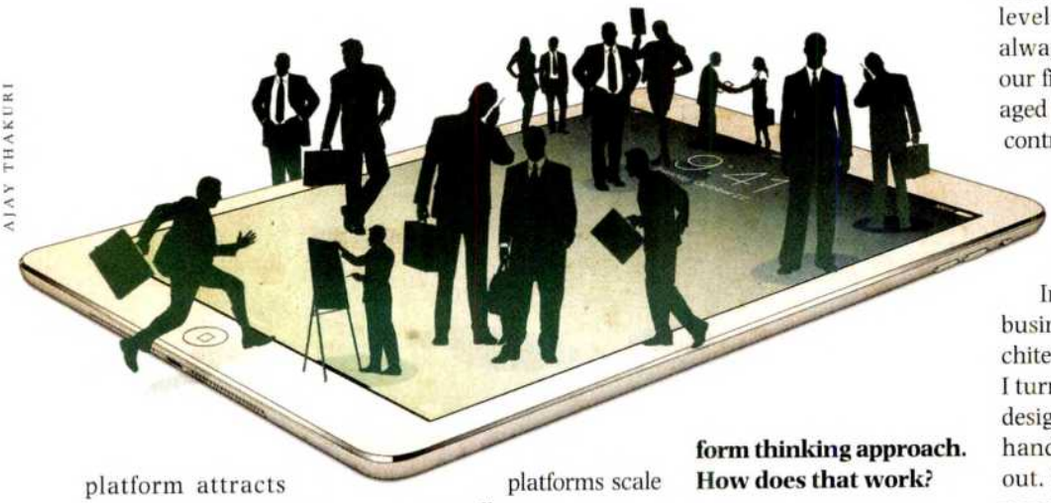

AJAY THAKURI

# THE METROPOLITAN HOTEL AND SPA CELEBRATES 15 YEARS

With great pride, we hereby announce completion of 15 successful years of The Metropolitan Hotel and Spa. Having officially opened its doors to its first guests in 2000, these 15 glorious years personify a sense of satisfaction, delight and accomplishment.

During these years, hotel has successfully managed to undergo a journey of transformation. Nick-named as **THE MET**, this luxury 5 star deluxe property is a perfect amalgamation of panache and substance. It welcome guests to a fresh atmosphere with vivid, minimalist, urban, stylish designs, and let them slip into smoothest place with warm and thoughtful service. Appraise from guests and various honors, awards and accolades at international platforms like World Luxury Hotel Awards, International Hotel Awards, Luxury Travel Guide, Tripadvisor, Booking.com and many more encapsulates **THE MET's** eventful journey.

**Recalling the wonderful journey of the hotel, Executive Director, Mr. Vipul Gupta congratulates all on achieving this milestone. He says,**

**"This is an exciting year and a momentous occasion for THE MET as it celebrates a historic past and looks forward to the future. This special milestone will not go unnoticed and we will kick-off our anniversary year with series of celebratory offers and packages."**

He gives all the credit for this success to his staff for their undying spirit and impeccable services and shows gratitude towards his customers for their loyalty and support.

**THE MET** has continued to spread the light and warmth of hospitality ever since it's opening. In order to commemorate this huge success, **THE MET** will offer luxurious **15 Years Room package**, interesting **food festivals**, **rejuvenating 15 Years spa treatment**, **great discounts and many special offers**. By offering such promotions, **THE MET** will add a sense of rarity, luxury and unique experiences to invite guests. So whether it's a special room package or an offer at different outlets with a price to die for; a lot is on the cards to make the customers a part of this celebration.

Future plans of **THE MET** aims to take all its outlets to new heights. Be it signature fine-dining outlet, **Sakura**, luxury lifestyle store, **Craft House** or a lavish wellness spa, **NeoVeda Spa**; the hotel plans expansion with an aim to reach more and more people with better services and world-class products.

**THE MET** thank all its guests for their continuous patronage and recommendations in making it as their preferred property in New Delhi, India. For a complete description of The Metropolitan Hotel & Spa, New Delhi and various offers, please visit **www.hotelmetdelhi.com**

DJI
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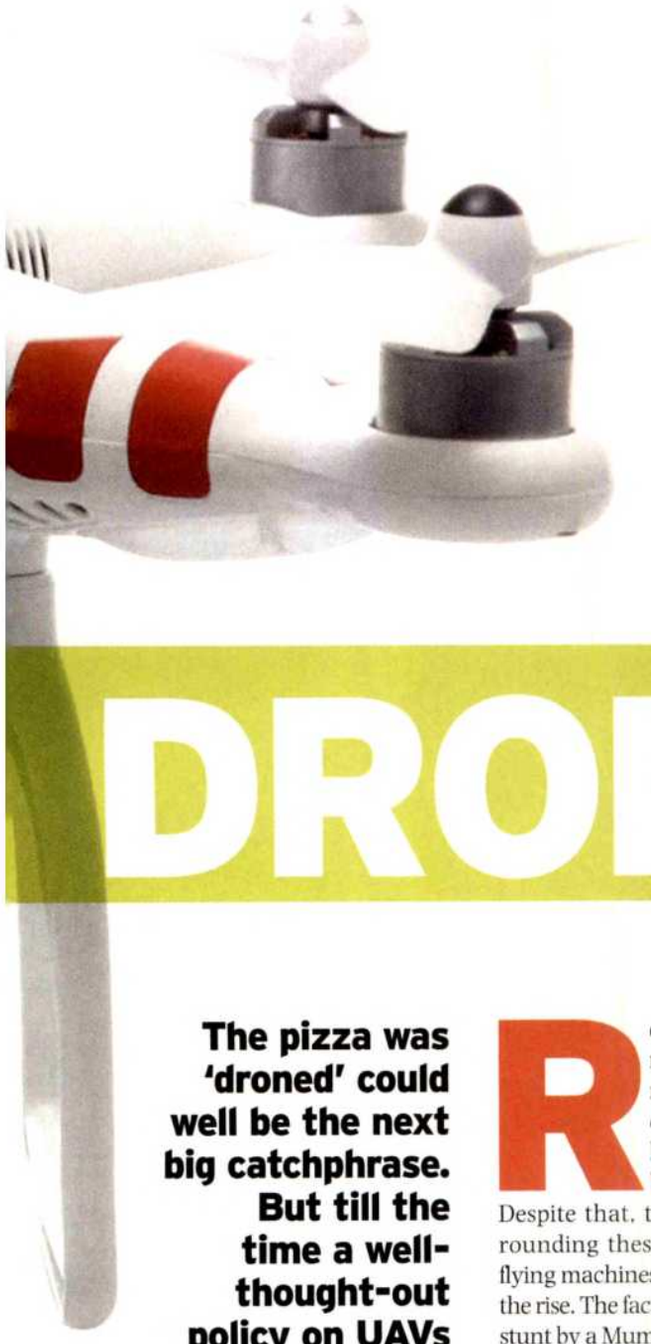
PHANTOM VISION
Flyer's Bay
Beetle Quad-
Copter 2.4

# GAME OF

Parrot Drone 2.0



# DRONES

**The pizza was 'droned' could well be the next big catchphrase. But till the time a well-thought-out policy on UAVs is announced they will remain grounded.**

By NIDHI SINGAL

Recreational or commercial use of unmanned aerial vehicles (UAVs), popularly known as drones, is banned in India. Despite that, the enthusiasm surrounding these remote-controlled flying machines has steadily been on the rise. The fact that a mere publicity stunt by a Mumbai-based pizza chain went viral on social media stands testimony to this. The fake video, which shows a GPS-enabled drone delivering a pizza to an expectant customer three kilometres away, caught the high-flying imagination of geeks across the country. However, it may also just be a matter of time before drone-delivery actually catches on – the earlier the Directorate General of Civil Aviation (DGCA) takes a call on the licensing nitty-gritty for drones, the merrier.

"Drones are increasingly becoming a more relevant and popular consumer product, partly due to its capabilities and partly as an easy-to-use, 'out-of-the-box' flying machine with minimal setup. It can be a useful tool to photographing locations while travelling or even taking a snapshot of your backyard from a different angle," says Chinmoy Lad, Public Relations Specialist of drone maker DJI.

Undoubtedly, this is the next big technology innovation everyone is

talking about and, in spite of the DGCA ban, drones are flying off shelves of both offline and online retailers. The Flyer's Bay X-Drone Evoluiton 2.4GHz with a mounted camera is a popular product that comes for around ₹4,000. Parrot's AR.Drone 2.0 Quadricopter is yet another favourite with the Indian consumer due to the 720p high-definition live video streaming capabilities of the product. The device works with iPod Touch, iPhone, iPad and Android devices, and is priced at ₹39,990.

A few years ago, DJI-manufactured drones were a craze. The company had launched light-weight and easy-to-fly four-propeller helicopters that could shoot stable aerial videos. The products instantly became popular with hobbyists, filmmakers and even journalists, though the price tag was in the range of ₹70,000 to a few lakhs. Drones are also in use by industries such as agriculture, viticulture, fire-fighting and filmmaking, apart from the security establishment, including the police, armed forces and intelligence network.

Regulatory intervention following the popularity and sudden rise in the use of drones among the masses was necessary primarily due to security threats and air safety issues. Therefore, the DGCA's decision to ban drones in May 2014 did not come as a surprise for security experts. "The DGCA is in the process of formulating regulations for certification and operation for use of unmanned aircraft systems (UAS) in the Indian civil airspace. Till such regulations are issued, no non-government agency, organisation, or an individual will launch a UAS in Indian civil airspace for any purpose whatsoever," the DGCA said in a notice at the time.

Captain Shakti Lumba, former Head of Operation at IndiGo and Alliance Air, explains: "The regulations will be based on International Civil Aviation Organisation (ICAO) standards and recommended practices. Till the time the ICAO comes out with recommendations, one requires permission from the Airports Authority of India, Ministry of Defence, Ministry of Home Affairs, other 'concerned' security agencies, apart from the DGCA for civil operation of UAVs." However, the long wait for the DGCA to issue guidelines has not helped either, as drones have become a common sight despite the ban and, many feel, it could result in a serious security breach.

May Day signals from enthusiasts and industries across the spectrum are also growing louder by the day as the possibilities of commercial use of drones are endless. "Drones make data collection a much faster process, reducing risks to human life and are accurate, efficient and cost-effective. With the technology growing, it will be possible to carry different kinds of payloads on UAVs and collect different kinds of data that can assist in decision-making in various industries. Supply chain is another field of application," says Shinil Shekhar, one of the co-founders of Airpix, a company which develops UAV systems to provide aerial data solutions.

There are various kinds of drones ranging from quadcopters to fixed wing planes. The images and videos captured are of high resolution and accurate, and is expected to contribute in effective decision-making. For instance, real estate developers are using drones to give their buyers a real look and feel of what the apartment would look like, providing them with construction updates and much more. They also come handy to check for any lapses and damages in construction, and helps save both time and money.

DJI drones are also popular with wedding photographers in India. They are equipped with GoPro Hero4 Black and are preferred over cranes. By 2016, drones will incorporate 4k video technology too. Filmmakers are opting for drones as it would cost less than helicopters for capturing aerial shots. E-commerce and courier companies, such as Amazon and DHL, are also keen to use drones to deliver light-weight products.

Shekhar of Airpix says drones are getting more acceptable in India. "In the past, drones were thought of just as a military weapon, but of late, with more appearances of UAVs in movies, TV ads and events, the perception is changing. People in the corporate world too realise that the potential is immense and they are exploring for more applications and welcoming UAVs to make their business decisions," he says.

But until the DGCA comes up with regulations, drones won't take off. Gerald Van Hoy, Senior Research Analyst at Gartner, says not much thought was put into the ban on drones. "I think there is a lot of pressure on the DGCA to come up with regulations. The problem is they cannot have a "quick-fix" or adopt another country's regulations," he says. "They will have to come up with a solution in the Indian context, else it would kill the drone business." ◆

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# Voyage of a Lifetime

EXPERIENCE THE AMAZING AMAZON KINDLE VOYAGE. IT'S NOT JUST ANOTHER EBOOK READER.

By NIDHI SINGAL

Why do I even need an eBook reader? 'I have an app for that on my smartphone.' 'I prefer paper books to eBooks.' 'I have enough devices sucking power at home. I don't need another one just to read books.' If you keep arguing along these lines every time someone tries to convince you to buy an eBook reader, chances are that you may lose out on an amazing experience: that of using the Amazon Kindle Voyage.

For me, it was love at first sight. The feel of the 7.6-mm-thick, lightweight (188 gms) device was awesome. I could finish reading an entire book without having to juggle it from one hand to the other. The Voyage can be easily carried in a handbag or a laptop bag. Its predecessor, the Kindle Paperwhite, was marginally heavier (206 grams) and, therefore, holding it for a longer period of time was a pain.

Setting it up is simple. Just power it on and key in your Amazon account details. You don't have to connect it to a Wi-Fi hub as it comes with inbuilt 3G access. You can download your books and also browse the Amazon store for more books without any hassle.

Yet another cool feature is the PagePress: the subtly-embedded physical button for turning the pages without lifting a finger. All I had to do was apply a little pressure to the bezel to turn the page.

Voyage has a new six-inch Carta E Ink HD touchscreen display, with a density of 300 pixels per inch (ppi). The items appear sharper with a higher-resolution screen. The ambient light feature lets you read in darkness as well as in sunlight by automatically adjusting to the brightness of your surroundings.

The Kindle Voyage is the lightest touchscreen eBook reader till date, but remember, at ₹20,499, it costs considerably more than, say, the Kindle Paperwhite. If you are a well-heeled avid reader, however, then you may have found your perfect companion in the Voyage. ◆

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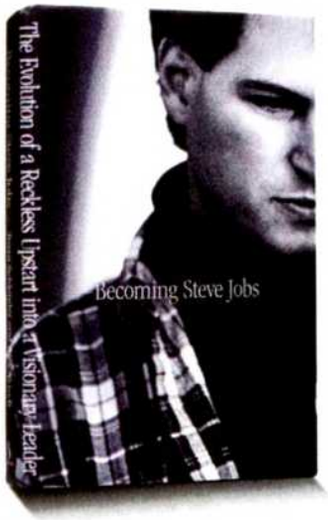
# The Human Side of a Tech Genius

## An eminently readable and inspiring book that presents the late Steve Jobs as a real human being. By GANESH NATARAJAN




***Becoming Steve Jobs***
**By Brent Schlender and Rick Tetzeli**
PAGES: 464
PRICE: ₹699
Hodder and Stoughton

I didn't see it then, but it turned out that getting fired from Apple was the best thing that could ever have happened to me. The heaviness of being successful was replaced by the lightness of being a beginner again, less sure about everything. It freed me to enter one of the most creative periods of my life." There are many achievements and failures that Steve Jobs is known for, but this excerpt from the commencement speech he made at Stanford on June 16, 2005, faithfully reproduced in Chapter 13 of this remarkable new book, signifies both his transformation to become one of the most innovative and successful CEOs of America, and his uncanny ability to connect the dots and create new visions for the world!

This book is eminently readable and inspiring because it presents Jobs as a real human being, who took full advantage of his doting foster parents by hopping in and out of college. It also chronicles how he built his first computer with Steve Wozniak in the garage of their home and lived life on his own terms right through his early time at Apple, besides his not-so-successful experiments at NeXT and runaway success at Pixar, before he returned with the wisdom acquired in this journey to make Apple the most valuable company in the world.

There are nuggets of management wisdom spread through the book. "Temper, properly targeted could be a very effective motivational tool", an art that Jobs probably unwittingly mastered. Here was a man who knew, as the authors put it, that "every technological advance must be famed in a beguiling narrative if it's to get off the workbench and into people's businesses or homes." This very strength, however, could prove to be his failing in the early years of NeXT, when in his battle with Sun [Microsystems], "he was looking in the mirror while [Sun's co-founder Scott] McNealy was looking out the window to learn what the world really needed."

Readers in India will find his journey to the country, his delving into Asian philosophy and his lack of focus on the voyage of self-discovery very appealing as we watch many youngsters in our cities struggle with the same search for a broader vision. The lasting impact that India had on him can be discerned by his devotion to Paramahamsa Yogananda's *Autobiography of a Yogi*, which was his reference at many stages on his life journey and was given to all attendees at a reception following his memorial service on October 16, 2011.

One of the most endearing threads that runs through the book are the many interactions that Jobs had with other legendary CEOs of the Silicon Valley – Andy Grove of Intel, Michael Dell of Dell, Sun's McNealy, Larry Ellison of Oracle and, of course, Bill Gates of Microsoft. While McNealy and Dell would scoff, both Ellison and Grove were friends to reach out to and in Bill, he found the perfect counterpoint who would compete with Apple right through, but occasionally provide visions of a new world that even Apple could adopt in its future strategies.

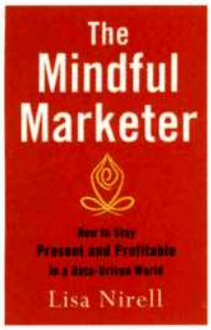
For Jobs, who captured the word's imagination early with a revolutionary computer, but "couldn't be bothered with the heavy lifting required to make the Mac succeed as an ongoing business", the wisdom that he acquired through these interactions made him the giant he became before his life was cut cruelly short by the Emperor of Maladies, Cancer! The authors recollect Jobs telling the NeXT CFO: "When my life is over, people will give me credit for all the creative stuff. But no one will know I actually know how to run a business." ◆

*The reviewer is Chairman of NASSCOM Foundation, and CEO of Zensar Technologies*

**The lasting impact that India had on Jobs can be discerned by his devotion to Paramahamsa Yogananda's *Autobiography of a Yogi*, which was his reference at many stages on his life journey**

# *Big Data Meets Buddhism*

## An enjoyable, refreshingly different perspective on marketing as a profession. By AJAY KELKAR




***The Mindful Marketer***
**By Lisa Nirell**
PAGES: 240
PRICE: ₹1,897
Palgrave Macmillan

Can Buddhist concepts allow us to achieve greater balance and control of our work and personal lives? It is possible, at least according to Lisa Nirell in her latest book. I began reading it with trepidation because it seemed filled with fluffy concepts like mindfulness, aliveness and the inner marketing guru. It took a while getting used to, but once I learnt to filter out some of the jargon, it became an enjoyable and refreshingly different perspective on marketing as a profession.

It is much more than a marketing book. It is, in fact, a part "self help" and part "marketing philosophy" book. It is a three-part playbook for bringing the "balance" in the marketer's life. An industry veteran who has helped companies like Microsoft, Adobe and Oracle accelerate growth, Nirell has discovered the 'middle path' between mindfulness, which has been seen as a Buddhist practise, and frenetic marketing action. This book is not high on new marketing theories or concepts, but rather it brings known concepts into a new softer paradigm.

It begins with Nirell coining an interesting new term, the digital intrusion movement (DIM). She believes that the insanely multitasking CMO is today eroding his/her own effectiveness and reducing his/her capacity to engage positively with the customers. Marketing and war have often been compared. Often, marketers use terms like fighting for market share and marketing warfare at the drop of a hat. But Nirell reminds marketers to be gentler, stop targeting people and start serving people. Nirell also calls for a balance between data-based, analytical thinking and creative and human approaches to marketing. She says the insane focus on data and analytics needs to be tempered with a more human view of customers. She is courageous to go against the tide and take on Big Data as an overhyped concept and something which cannot work without a balanced approach.

Where Nirell hits the bull's eye is in exploring the issue of how CMOs can improve their relationship with the CEO and increase the influence that marketing holds with CXOs. She asks marketers to stop using their unique language and jargon and instead connect to metrics that both the CEO and the CFO understand. Her advice is practical with a chapter each dedicated to improving relationships with the CEO, CFO and CIO. So, go by her advice, reduce those manic commitments and focus on becoming more mindful as a marketer. Or, risk extinction as a CMO. ◆

*The reviewer is an entrepreneur in the Big Data marketing space, and co-founder & COO of Hansa Cequity*

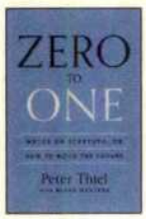
## The Real Life MBA

THE FORTNIGHTLY PICK

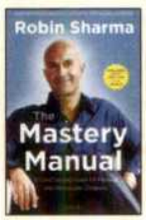
By Jack Welch, Suzy Welch
Harper Thorsons
Price: ₹599
The latest book from the husband-wife duo digs deeper into the world of business than ever done before.

## BUSINESS BESTSELLERS*

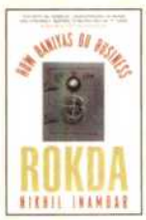
*Dream With Your Eyes Open*
By Ronnie Screwvala
Rupa Publications
Price: ₹500



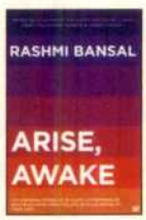

*Zero to One: Note on Start Ups, or How to Build the Future*
By Peter Thiel
Random House
Price: ₹499




*The Mastery Manual*
By Robin Sharma
Jaico Publishing House
Price: ₹199




*Rokda: How Baniyas Do Business*
By Nikhil Inamdar
Random House
Price: ₹199




*Arise, Awake*
By Rashmi Bansal
Westland Books
Price: ₹200

*Top books by sales for April 12-25; includes only books released after April 1, 2014; Information provided by amazon.in

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**Ajuba Solutions India Private Limited**
Medical Coding Manager/Senior Manager
**Location:** Chennai
**Jobs ID:** 16677678
**Description:** Minimum 10+ years of Medi Coding experience required.

**Golden Opportunities Private Limited**
Senior Manager - Financial Analysis
**Location:** Chennai
**Job ID:** 16806639
**Description:** Looking for CA/CWA professionals with 8+ years of experience in cost controlling, cost accounting, P&L analysis etc.

**Vitasta Consulting Private Limited**
Senior Manager-Transfer Pricing
**Location:** Mumbai
**Job ID:** 16804355
**Description:** Providing opinions in the fo of memos, notes and presentations on varie transfer pricing issues.

**FrontAhead HR Solutions**
Regional Manager-Business Administration
**Location:** Kolkata
**Job ID:** 16789182
**Description:** Commercial functions, Sales & Service Support activities, Business Administration, Vendor Management etc.

**Tech Mahindra Limited**
Industry Lead - Chemical
**Location:** Chennai
**Job ID:** 16803994
**Description:** Responsible for formulating a presenting solutions for customer to gr business in Chemical vertical.

**Jobsplan**
Production Head / Facilities Head
**Location:** Kolkata
**Job ID:** 16626344
**Description:** Effectively contribute to Company Objectives including revenue, Heading in-house Production and Maintenance Functions.

**Manokam**
Vice President - Sales & Marketing -Ro Chemical
**Location:** Baroda
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**Cybage Software Private Limited**
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**Location:** Pune
**Job ID:** 16607894
**Description:** 4+ years of experience in core Java as well as advanced Java.

**Mindtree Limited**
Dot Net
**Location:** Chennai
**Job ID:** 16778019
**Description:** Looking for talented IT professional.

**Replicon**
Senior Software Engineer
**Location:** Bengaluru / Bangalore
**Job ID:** 16817218
**Description:** Responsible for many phases of the software development life cycle including technical research, requirements analysis etc.

**TIBCO Software India Private Limited**
Tibco Consultant
**Location:** Hyderabad / Secunderabad, Pune
**Job ID:** 16818603
**Description:** Participate in the process of communicating mutually agreed upon expectations.

**Polaris Financial Technology Limited**
AngularJS-C# Dot Net Developer
**Location:** Pune
**Job ID:** 16799328
**Description:** Strong AngularJS-C3# Dot Net developer experience along with HTML5,CSS and Jquery.

**NTT DATA Global Delivery Services Limited**
IBM Websphere Commerce Developer
**Location:** Chennai
**Job ID:** 16818147
**Description:** Should have good Knowledge and work experience on Websphere commerce Framework versions like 5.6.1 and 7.

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Software Engineer 3
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Sales Profile
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**Description:** To generate leads and acquire customers for Liability Products (Current Account and Saving Account) and meet Targets within the prescribed KYC (Know your customer) guidelines.

**Roland and Associates**
Primary Sales/Distribution Sales/ Cha
Sales Executive
**Location:** Kottayam, Thiruvananthapura
Trivandrum
**Jobs ID:** 16812925
**Description:** Responsible for handling distribution sales for the allotted location.

**Cygnus Staffing Solutions**
Sales / Marketing Manager
**Location:** Hyderabad / Secunderabad
**Job ID:** 16636872
**Description:** Identifying and appointing agents, retailers, institutions, and distributors. Mapping potential Markets etc.

**TopGear Consultants Private Limited**
Sales Manager
**Location:** Mumbai
**Job ID:** 14906916
**Description:** Recruiting agents, training th agents for selling insurance policies, man the team of agents, meeting clients & achie targets.

**Akshay Software Technologies**
Sr. Business Development Executive
**Location:** Mumbai
**Job ID:** 16179732
**Description:** Scheduled Sales Report Update, Strategic Information Update. Follow Sales Process, Achieve Sales Target etc.

**RS Consultants**
Manager - Business Development
**Location:** Pune
**Job ID:** 16347974
**Description:** New land acquisition keepin mind the customers and marketability of project. Negotiate with the land owners.

**ABC Consultants Private Limited**
Sales Manager
**Location:** Bengaluru / Bangalore, Chennai
**Job ID:** 16819452
**Description:** Work closely with KCM/CSRM from branch banking to service identified corporates.

**2COMS Consulting Private Limited**
Business Development Executive
**Location:** Mumbai
**Job ID:** 16819927
**Description:** To identify and create busine opportunities in industry, verticals a promote the entire range of products a service offering.

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# Finance Jobs brought to you by monster.com

**Ikya Human Capital Solutions Private Limited**
Credit Assessment Officer
**Location:** Bengaluru / Bangalore
**Job ID:** 16807196
**Description:** Candidate should be a graduate or a post graduate (preferably B.com) with 1.6 to 3years of experience in any banking & financial services company.

**Cyient Limited**
Finance Manager
**Location:** Hyderabad / Secunderabad
**Job ID:** 16809164
**Description:** MBA (Finance)/CA with 6+ years' experience in a similar role and exposure to compliance matters.

**Tesco Hindustan Service Center**
Accounts Executive
**Location:** Bengaluru / Bangalore
**Job ID:** 16807306
**Description:** Preparation of Joint Venture Management account which comprises off - Balance Sheet, Profit & Loss A/c, Cash flows and related notes.

**TeamLease Services Private Limited**
Finance and Accounts Manager
**Location:** Bengaluru / Bangalore
**Job ID:** 16484951
**Description:** Responsible for managing the entire gamut of Accounts Payables (AP), Accounts receivables (AR) & General Ledger (GL / R2R)processes.

**WNS Global Services Private Limited**
Accounts Payable / Receivable & General Ledger
**Location:** Mumbai, Thane
**Job ID:** 16741528
**Description:** Candidates should have worked upto finalization of accounts or assisted in finalization.

**VCentric Technologies Private Limited**
Manager-Internal Audit
**Location:** Mumbai
**Job ID:** 16790061
**Description:** Looking for candidates who have post Qualification experience in Internal Audit-Finance.

**Careerist Management Consultants Private Limited**
Manager Finance
**Location:** Mumbai
**Job ID:** 16741958
**Description:** Co-ordinate with the group reporting and MIS function, to ensure smooth closure of accounts and strict adherence to the reporting calendar.

**Juniper Networks Inc.**
Accounts Payable Analyst
**Location:** Bengaluru / Bangalore
**Job ID:** 16807007
**Description:** Have in-depth knowledge in performing Reconciliation using advanced excel techniques (Reconcile AP Sub ledger to GL, Vendor Reconciliation etc.)

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**Sunil Wadhwani (L) & Ashok Trivedi**
Co-founders, iGate

## Cashing Out

Nearly three decades after they first built Mastech and eventually morphed parts of it into what is iGate today, friends and partners **SUNIL WADHWANI** and **ASHOK TRIVEDI** had a big pay day recently when French IT major Capgemini acquired the company for a whopping $4.04 billion. Wadhwani and Trivedi had moved away from executive roles and the company was being run by professionals. With their 12.99 and 12.81 per cent holdings, respectively, the duo walk away with nearly $500 million each. Apart from philanthropic activities, both had been involved in mentoring and angel investments. And given their entrepreneurial past, it won't be surprising if they end up launching a new venture.

VENKATESHA BABU

**Rishad H. Premji**
Board Member, Wipro

## Son Rise at Wipro

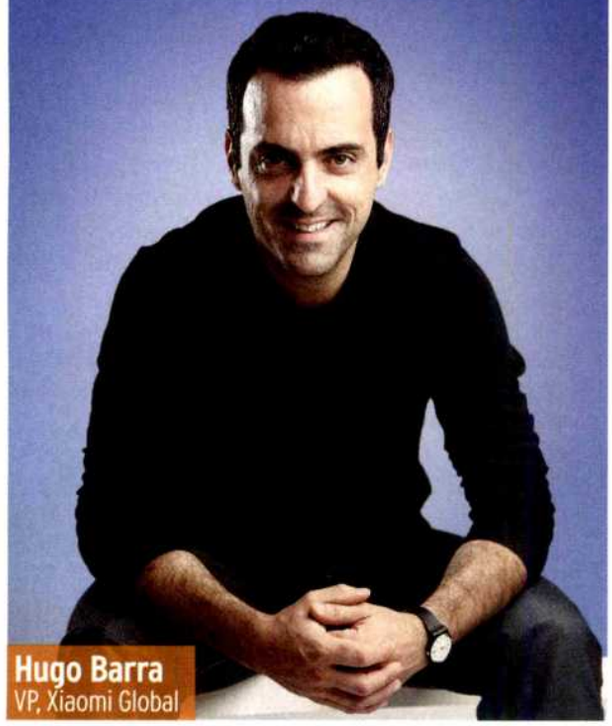
Almost eight years after he joined Bangalore-based IT giant Wipro, **RISHAD H. PREMJI**, 38, has now been inducted into the company's board. Rishad, by all accounts, is a chip off the old block, fully qualified and capable, having been carefully rotated and groomed amongst various functions in the company. The only question that remains is whether the elder son of Azim Premji will, at some point, also take on the CEO mantle, though company sources told *BT* it is unlikely.

VENKATESHA BABU

## 'Mi' in India

Ever since Xiaomi entered India last July, **HUGO BARRA** has been frequently visiting the country. Responsible for the Beijing-based consumer electronics company's global division and in charge of its products and operations in all markets outside China, he joined Xiaomi in October 2013 from Google. Days after the launch of Mi 4i, its first flagship smartphone outside China, in India, Xiaomi revealed that Ratan Tata, Chairman Emeritus of Tata Sons, has invested in the company. Said Barra: "We're incredibly honored by this extraordinary vote of confidence... We're really looking forward to working with him as an investor and advisor to build Mi India as a truly Indian company!"

NIDHI SINGAL



**Hugo Barra**
VP, Xiaomi Global

AJAY THAKURI

**Navinder Singh Sarao**
UK trader

## The New Wolf on Wall Street

**NAVINDER SINGH SARAO** is no longer an unknown name in the global financial market. It has been alleged that the trades executed by this person of Indian origin (PIO) on May 6, 2010, were responsible for the biggest one-day crash in Wall Street's history, wiping out close to $850 billion. UK-based Sarao, 36, is believed to have made a whopping $40 million in the process. If Sarao is extradited to the US and found guilty, he faces 380 years in imprisonment. It seems algorithmic trading is the new weapon in the hands of the new wolves on Wall Street and any flash trades could plunge global financial markets into a tailspin.

MAHESH NAYAK

## Playing Cat and Mouse

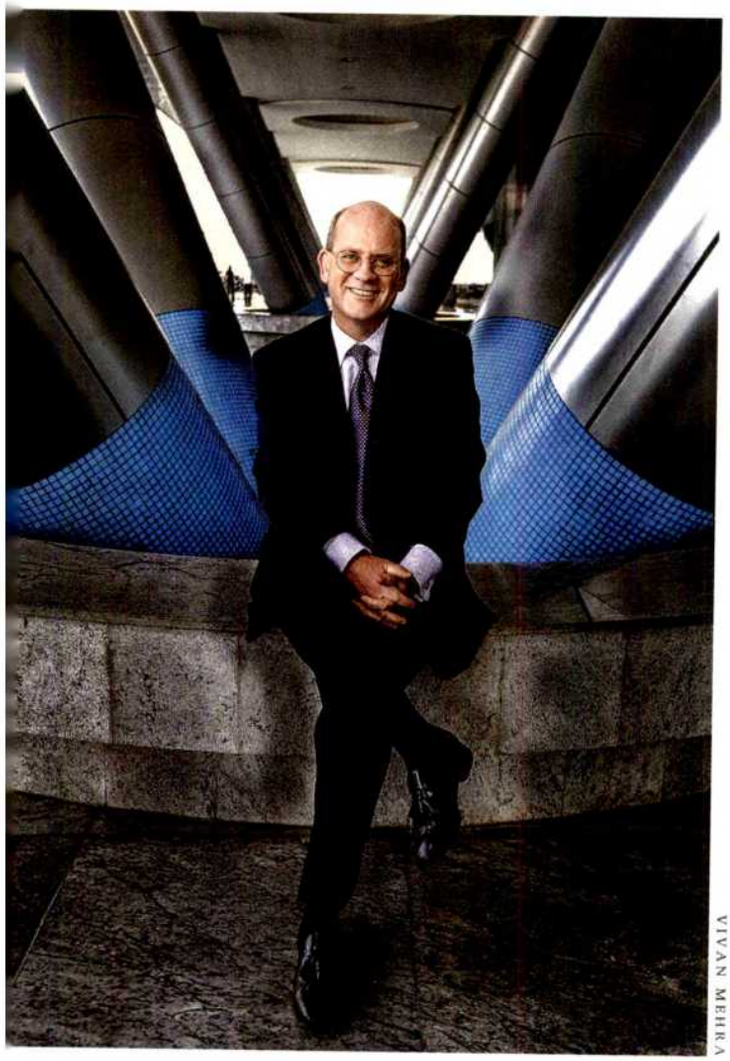
WPP's media network Group M and Sam Balsara-owned homegrown network Madison World have lately been at war. First, Sam Balsara refused to sell a stake in Madison's media and OOH business to Group M at a valuation he considered low. Then came the news that Group M had clinched Airtel's media account from Madison, which the latter had been servicing for close to a decade. Industry insiders claim the Airtel deal, for which it quoted a surprisingly low price, was Group M's way of snubbing Madison. Now, Balsara has hired **VIKRAM SAKHUJA**, Group M's Chief Strategy Officer, as Group CEO. Sakhuja has a lot of cleaning up to do at Madison, which hasn't been doing too well lately. Only time will tell whether Balsara's move to hire Sakhuja was a well-thought-out strategy to first fix his house and then sell it at a higher valuation, something industry observers don't rule out.

AJITA SHASHIDHAR

**Vikram Sakhuja**
Group CEO, Madison

See interview with John Flannery at businesstoday.in/ge-flannery

# "Strip away the wires and we can monitor you all the time"



VIVAN MEHRA

**John Flannery**, President and CEO of GE Healthcare, the $18-billion unit of General Electric, tells **Chitra Narayanan** and **Rajeev Dubey** that as capabilities change, markets change, currencies change, the business dynamics in India keep getting interesting. Excerpts:

***How will the trend of customers monitoring health through wearables disrupt business?***

Wearables is a very interesting space. It is going to be largely complementary to what we are doing... We have a lot of R&D looking at things like that. We are talking of wireless monitoring. In our traditional business we put monitors in the ICU. Now you strip away the wires and we can monitor you all the time... The intersection between healthcare and telecom is getting interesting.

***What about working with competitors like Siemens and Philips for future devices?***

The world today is an open architecture world. In other industries, nobody has a proprietary network that no one else can develop on, no one else has access to or interface with. The genie is out of the bottle.

***Is there any effort being put in to make them talk?***

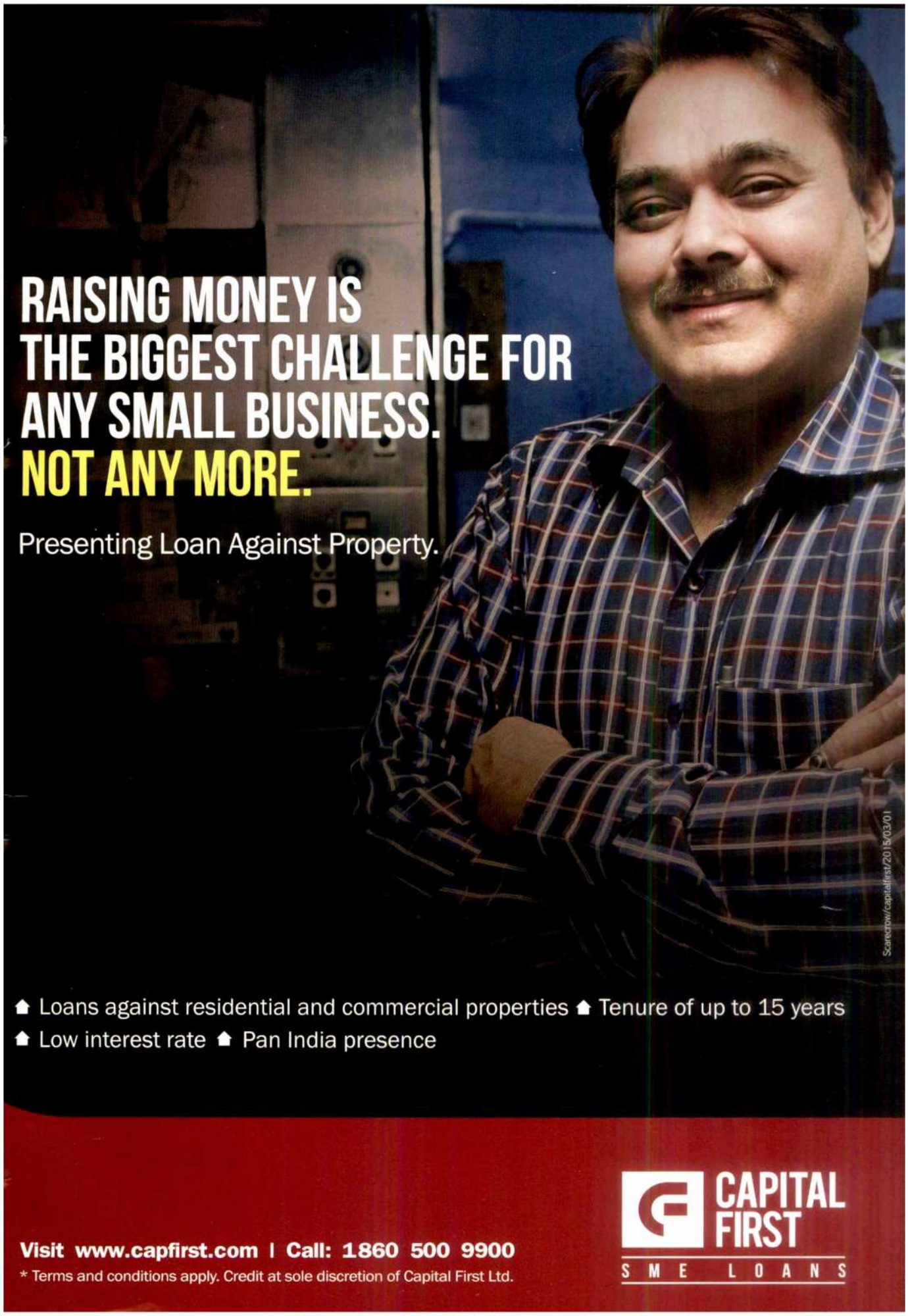
There are standards being put in. For example, in the diagnostic industry there are common standards. The national health organisation in India has signed an MoU with NASSCOM to establish information standards. India could very well become the first country to have a unified IT definition for healthcare. It is early days, but if that works, that is a very visionary approach.

***Six years ago GE committed $6 billion towards the healthcare business – a good part of it was to come to India. What has been the outcome?***

The context was that the Indian market structure required products and services that are priced differently. For our portfolio we needed to rethink our products in a fundamental engineering and design way. Now, we have over two dozen products We are experimenting right now and trying to take it global.... But today it's not just about the equipment. It's much more holistic, it is about training people to operate the machine. It's about the whole ecosystem.

***You know India very well, having been in a leadership role here before. What are the takeaways from here in your global role?***

We have a GE set of beliefs, one of which is that customers determine our success. I saw this in India where the market is the reality. You have to work backwards from that reality, and that has been something that I have tried at a global level. The second big thing is about distributed organisation. Local empowerment. Build great teams around the world and let them operate. ◆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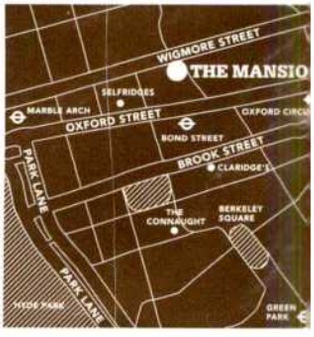

The Mind of **Rahul Yadav**

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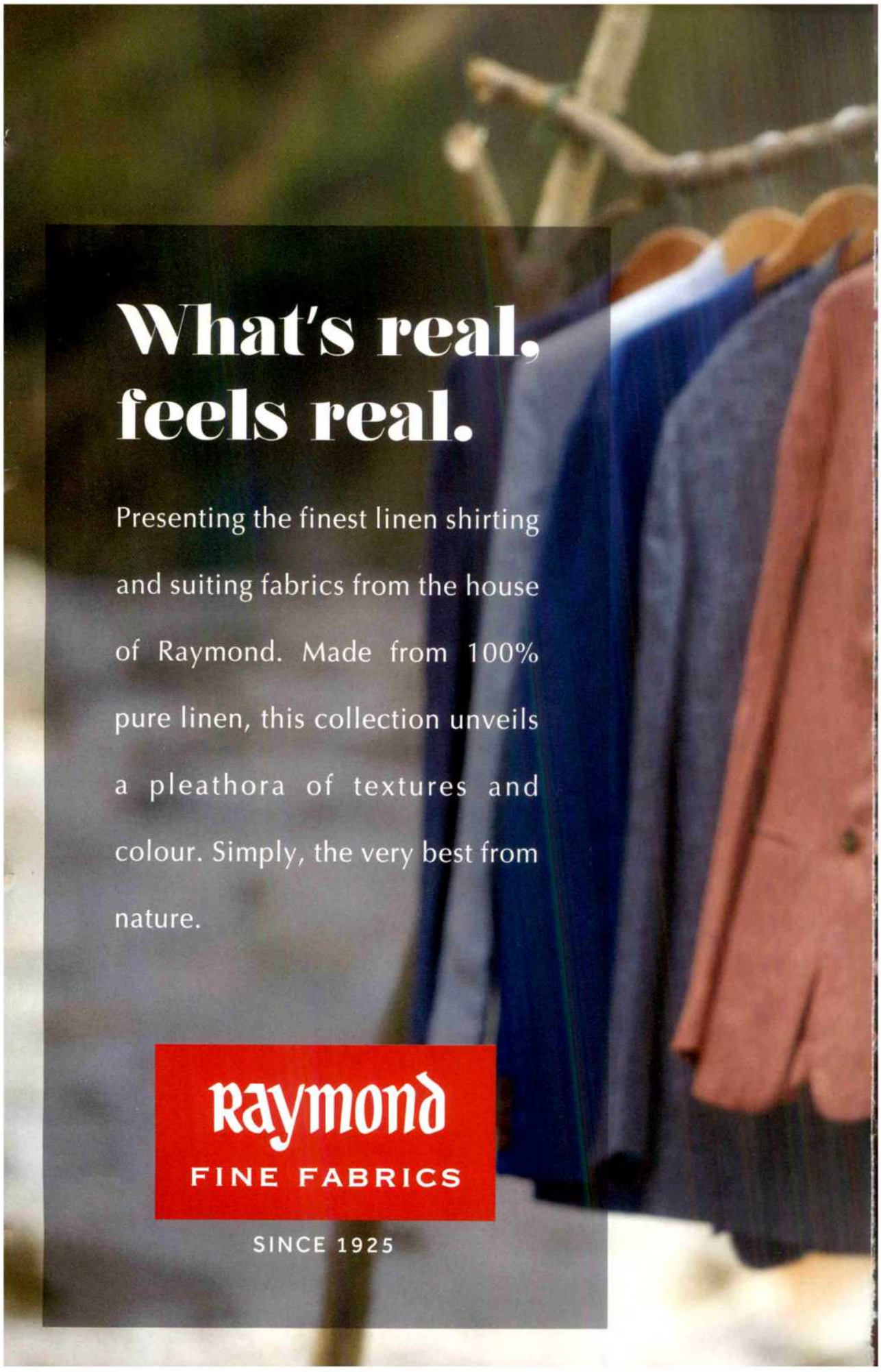
INDIA TODAY GROUP

# BIYANI'S NEW FUTURE

## HE HAS RECAST HIS STRATEGY. IS IT GOOD ENOUGH TO OUTSMART RIVALS?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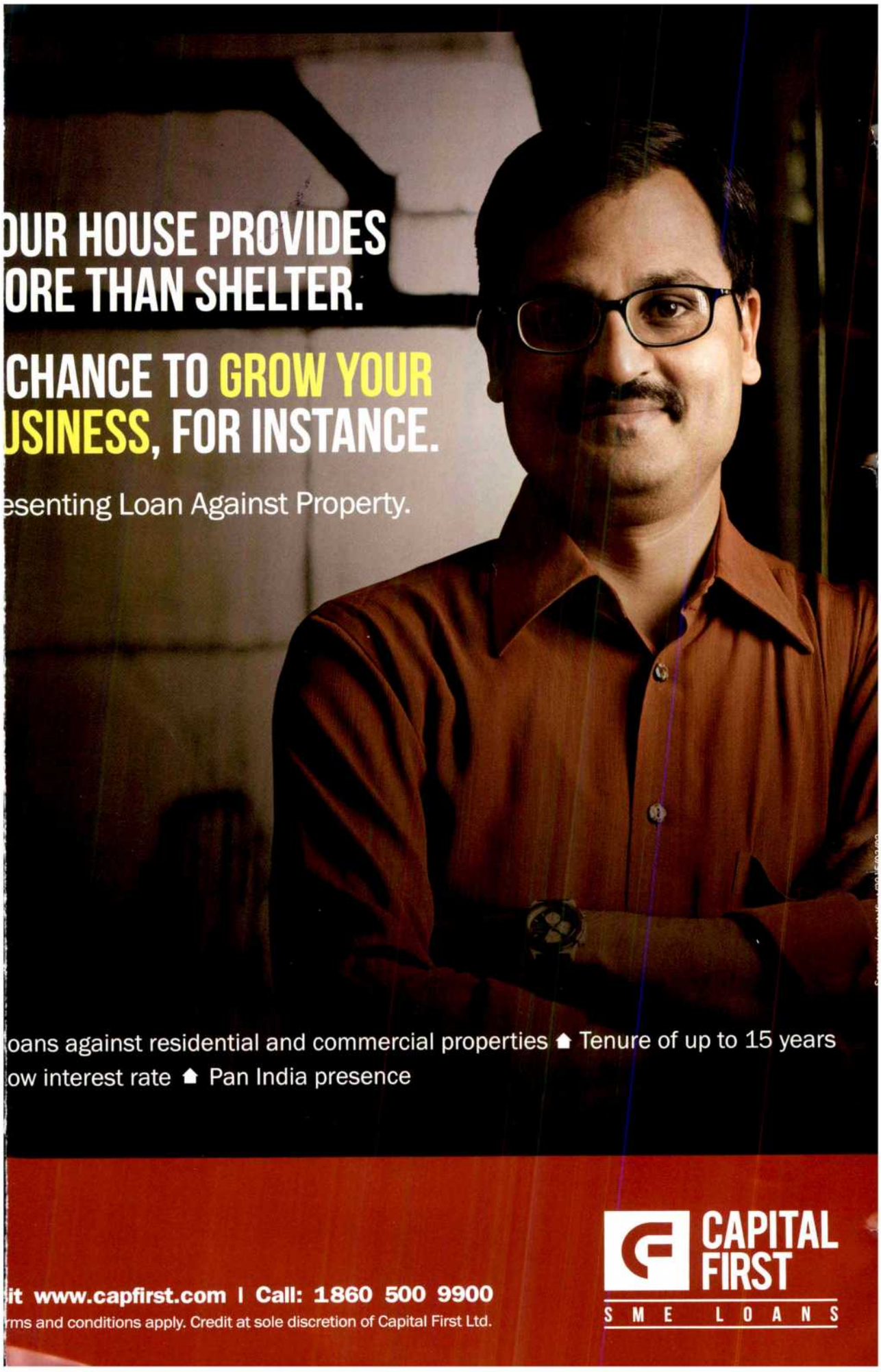
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# From the Editor

# The Future of Future

Between 2000 and 2008, Kishore Biyani became synonymous with Indian organised retail. He was not the first off the blocks – Shoppers' Stop started by the Raheja group held that distinction. But Biyani was expanding so rapidly, experimenting with so many new formats, and often first to introduce so many innovations, that he became the pre-eminent player in organised retail.

He rushed into geographies and formats while others were still doing market research. He opened grocery shops (Big Bazaar), fashion outlets (Pantaloons), furniture shops (Home Town) and even electronic mega outlets (e-zone). He toyed with the idea of a retail consumer finance supermarket, and started Future Capital. He had relatively little capital and his rivals had far deeper pockets, but he borrowed and expanded rapidly across the country.

The first phase of Biyani's growth took place in the backdrop of the global – and Indian – economic boom. Cheap liquidity was powering entrepreneurs and the stock markets, and organised retail was seen as a sunrise sector. Nobody thought that the good times would ever end.

As it turned out, the Lehman Brothers collapse saw the financial markets around the globe getting roiled, and India was also shaken by the events. Biyani found himself overextended. He had to sell off Pantaloons, his main fashion brand, to the AV Birla group, and also shed Future Capital to bring his debt under control.

Meanwhile, the market dynamics were changing. Reliance Industries had decided that retail would be a big business, no matter how much investment it required. As Reliance had unlimited money to spend, it started expanding fast precisely when Biyani was slowing down. Reliance lost a lot of money initially in its retail expansion but it powered on, and soon its retail footprint was almost as big as Biyani's. The AV Birla group and RPG had also focused on the business and put in more resources, and they were growing quickly as well. Biyani now had far more formidable rivals than he faced in his initial run.

Post 2010, the e-tailing revolution in India also started. Initially, Flipkart and the others like Infibeam stuck to retailing books, but soon they expanded into other categories, from electronic items to home goods and fashion. New dedicated players in niche markets also cropped up – from fashion retailers like Myntra and Jabong to furniture sellers like Pepperfry and Urban Ladder. The e-tailers have enormous funds from venture capitalists, and while they all continue losing money, they are also driving physical retailers in many categories out of business.

Now, e-tail companies are also focusing on food and grocery – which is Biyani's biggest business. Biyani had made a couple of attempts to get into e-tail earlier, but had failed miserably.

Last week, Biyani announced that his Future Retail was merging with Bharti group's Bharti Retail in an all-equity deal. Bharti had entered retail in partnership with Walmart, but the partnership was dissolved in 2013. Bharti was losing money in its retail business, and it made sense to merge with a player who obviously understood retail far better.

The merger will again push Biyani way ahead of his rivals, at least temporarily. It will also allow him to raise fresh capital. Biyani is now embarking on an ambitious omni-channel strategy that he hopes will allow him to fight his online rivals better. He is also getting into private label FMCG products which allow him to fight the price war again with e-tailers. To understand his calculations, read the cover story on page 50.

Prosenjit Datta

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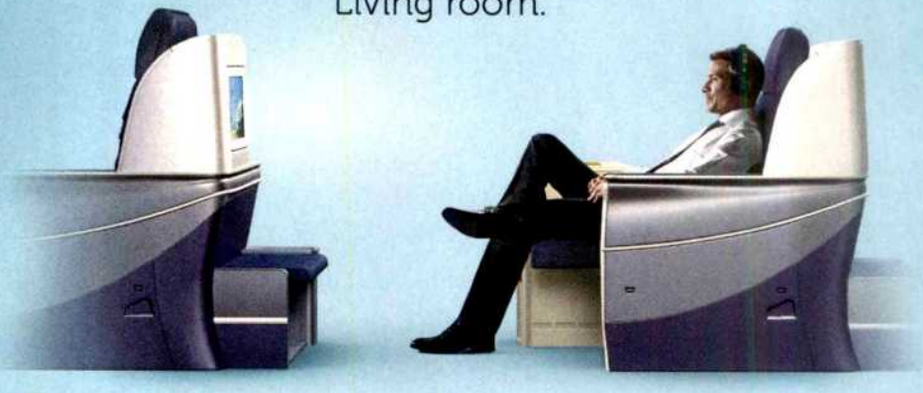

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# Re: Letters to the Editor

## Who Will Win the Battle Royale?

This refers to your cover story on e-commerce business (*Fight to the Finish*, May 24). Your team's prophecy – in the long run each market segment will have only one winner – seems to be like the replay of Charles Darwin's *Theory of Evolution*. The phrase "survival of the fittest" had originated from this theory, describing the mechanism of natural selection. In the e-commerce business, a "fit" venture obviously refers to the one that has best adapted to the current environment, of not only satisfying the customers but also delighting them so that they continue to be loyal supporters and contribute towards growing the venture's brand equity, too. It will be more interesting to see which way the business pie crumbles, who wins the battle royale, and who occupies the proverbial "*kursi*" ultimately.

**J.S. Broca**, *New Delhi*

## Modi Must Fulfil His Promises

This refers to the feature on economy (*Candidate Modi vs PM Modi*, May 24). Modi's ministerial colleagues dissipate their energy in political peroration and needless religious bigotry. They are yet to cohesively translate the PM's good intentions by working with the Opposition to take the economy on a growth trajectory and improving the livelihood and social conditions of the citizens. The promises in the hustings by candidate Modi must be fulfilled by PM Modi as he has the mandate of the people.

**B.Rajasekaran**, *Bangalore*

## Wishing Modi for the Tough Task

This refers to your cover story on solar energy (*The 100 GW Headache*, May 10). It is a big task to achieve in seven years. US President Barack Obama says Prime Minister Narendra Modi is India's reformer-in-chief and his grand plan to achieve India's true economic potential should be appreciated. Let's wish him for the tough task of meeting the solar energy targets.

**Kattamuri Mahesh**, *Surat*

## Need More Hotels to Boost Tourism

This refers to the case study on China Lodging Group. To increase tourism in India, we need more three- and four-star hotels with room rents between ₹2,000 and ₹5,000. Tourist destinations such as Delhi, Jaipur, Udaipur, Agra, Bangalore, and Varanasi should also have Hop-on, Hop-off buses that would allow tourists to explore the cities on a budget and without much help from the locals.

**A.M. Dayal**, *Hyderabad*

*Send all your comments to:* editor.bt@intoday.com

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**No effective steps have been taken to bring back black money: Ram Jethmalani to Supreme Court.**

@narendramodi must give priority to professionals like Ram Jethmalani and Subramanian Swamy to bring back black money.
- **Shivaji Arya**, *@ShivajiArya*

**Smart cities can create $30-40 billion business opportunity in India, says Nasscom.**

Smart cities must have smart and decent crematoriums.
- **Swaroop Karcherla**, *@kvswar*

**Modi government's reforms to propel Sensex to 33,000 by December 2015?**

Can anyone explain these sudden fluctuations during last 10 days? How much wealth gone? - **Abhishek**, *@abhishek1122*

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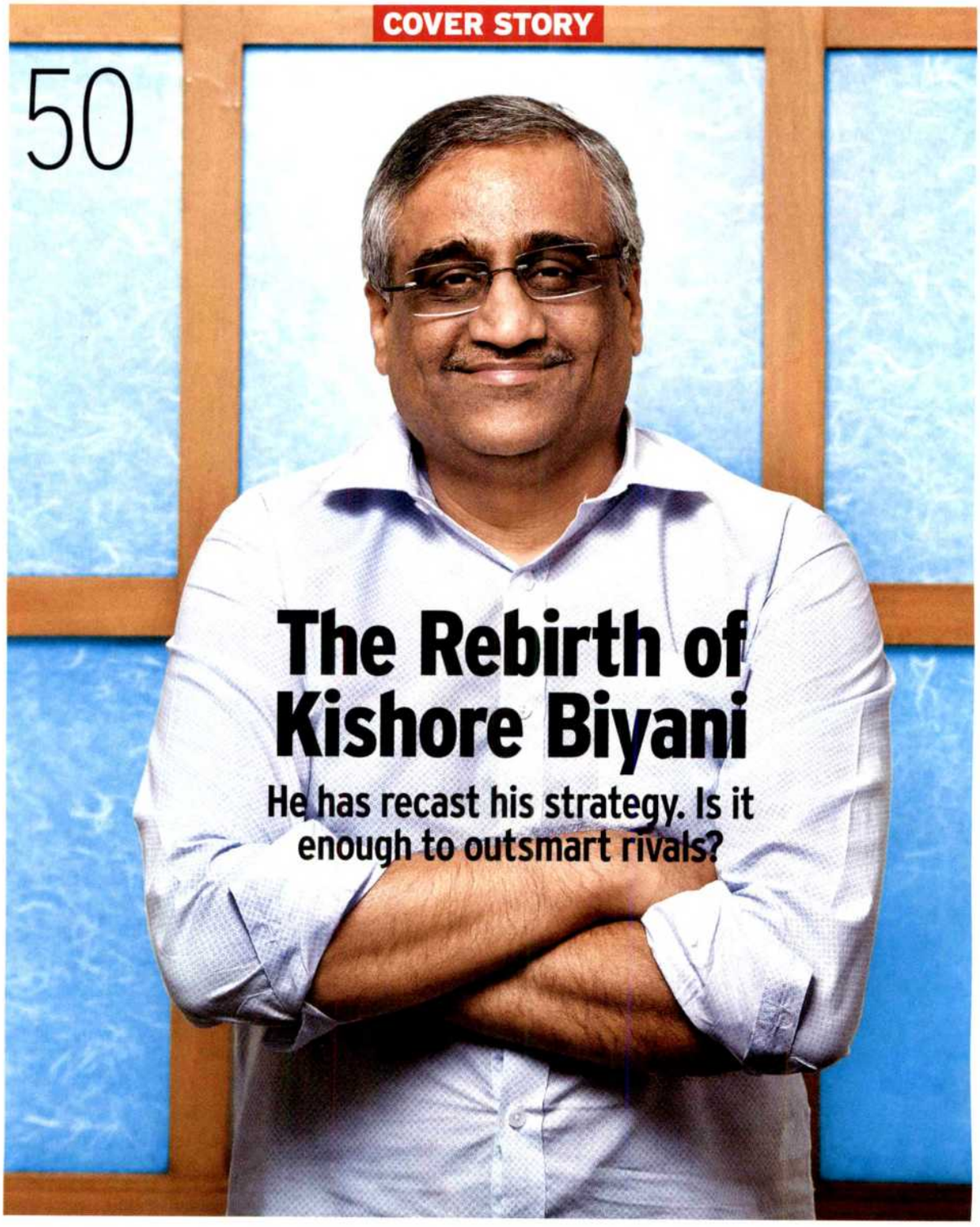

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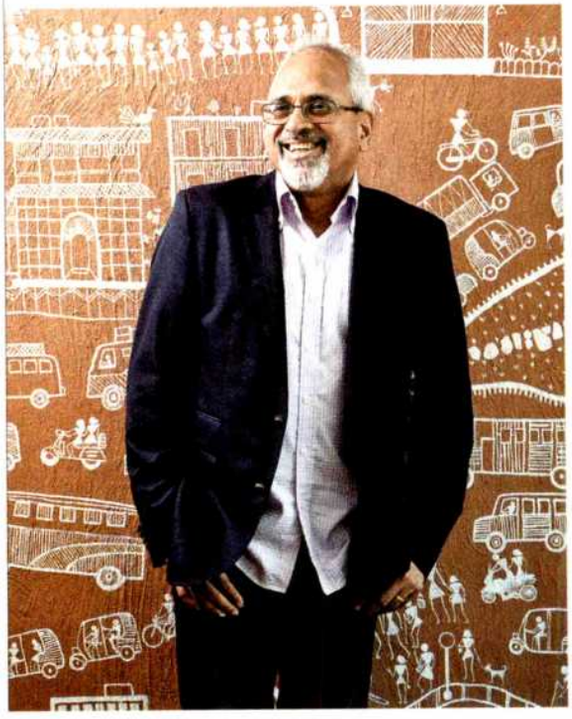



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**INTERVIEW**

**"Future of both print and television news is at risk"**
Shafi Saxena Chief Brand Officer, News Republic, speaks to **Vivan Mehra** about how she thinks the idea of news will evolve.
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**GADGET REVIEW**

**The New Samsung S-class**
If you wish to own a top-of-the-line Android smartphone, the **Galaxy S6** is definitely for you.
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**COLUMN**

**Becoming Your Own Boss**
**Alok Jain** of CareerCo.in says owning a business isn't viable for everyone, but exploring the option might help you figure out what you want to do next.
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**NEWS**

**Minting Money**
Innovations to generate $1.1 billion annually for Tata Group.
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BlackBerry launches Leap in India for ₹21,490.
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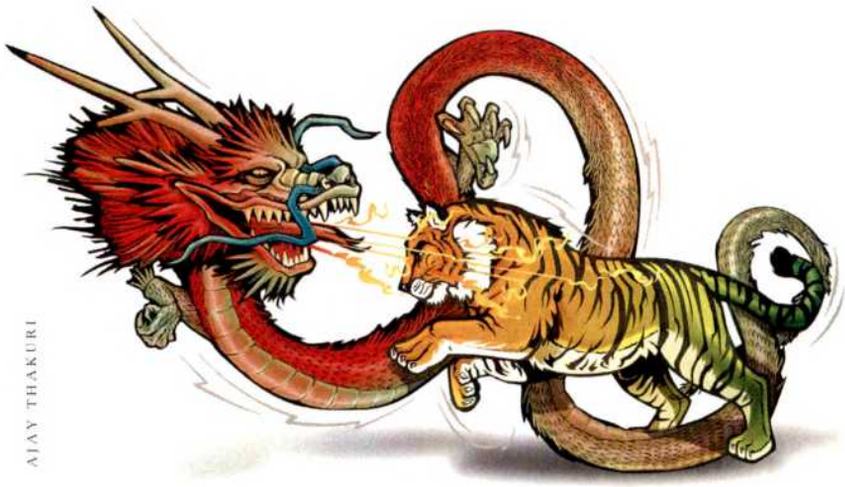

AJAY THAKURI

## "Due to the Indian elites' blind arrogance and confidence in their democracy, and the inferiority of its ordinary people, very few Indians are able to treat Sino-Indian relations accurately, objectively and rationally"

This was one of the benign things in an article in *Global Times*, an English language newspaper run by the Communist Party of China's *People's Daily*. Published two days before Prime Minister Narendra Modi was to arrive in Beijing, the article, as reported by various newspapers in India, said Modi had been playing "little tricks" to boost his "domestic prestige". It advised him not to visit Arunachal Pradesh, stop supporting the Dalai Lama, and admit that India's widening trade gap with China was India's "own fault".

## 25 MILLION

The number of cars recalled worldwide since 2008 over Takata airbag inflators that have erupted with too much force, spraying shrapnel inside the car, says Reuters. Six deaths have so far been linked to the defective Takata airbags, all on cars made by Honda Motor Co.

## "If I'm asked"

Former United States President Bill Clinton said on CBS's *The Late Show with David Letterman* that he will be open to moving back into the White House should wife Hillary win the presidential election next year.

## 9

The number of news publishers Facebook has tied up with to launch "Instant Articles" that will let them publish directly to the social network's mobile news feeds. Instant Articles will let stories load more than 10 times faster than standard mobile web articles and will include content from publishers such as *The New York Times*, *BuzzFeed* and *National Geographic*, reports Reuters, quoting a blog post on Facebook's website.

## "How much time does a woman want a week? Maybe 10 hours?"

Elon Musk, the celebrity industrialist behind Tesla Motors, SpaceX and SolarCity, wonders what it will take to fit a new relationship into his schedule, in a new biography for which he agreed to be interviewed, reports *The New York Times*. Musk, 43, has been married three times, twice to the same woman.

Microsoft

BE A

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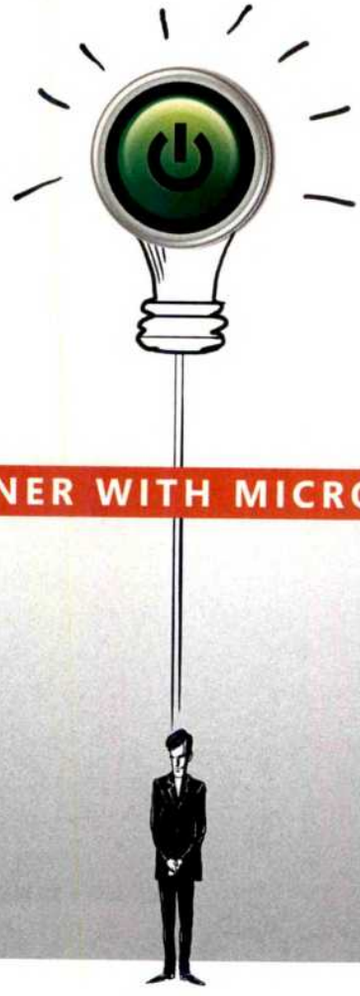

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## CELEBRATION TIME

**WHAT:** The Modi government's first anniversary
**WHEN:** May 26

**WHAT TO LOOK FOR:** Prime Minister Narendra Modi is likely to write an open letter to the nation on completion of one year in office. Various programmes are being finalised to mark the anniversary celebrations.

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## EASING THE BURDEN

**WHAT:** Simplified income-tax return forms
**WHEN:** By May-end

**WHAT TO LOOK FOR:** The finance ministry may exclude disclosure of dormant bank accounts as also those which do not have a minimum specified balance in the simplified form. The government is also set to launch a mega programme to expeditiously provide permanent account number (PAN) cards to all. An online facility to issue PAN is on the agenda.

2

## A MATTER OF INTEREST

**WHAT:** Monetary policy review
**WHEN:** June 2

**WHAT TO LOOK FOR:** Reserve Bank of India Governor Raghuram Rajan may cut interest rates by 25 basis points even before its monetary policy review on June 2 as inflation is easing and the US Fed tightening is expected by the year-end, State Bank of India said in a research note. Bank of America Merrill Lynch said it is now 'more confident' of a 25-basis-point rate cut in the monetary policy review as most conditions set by the central bank for a rate cut have already been met. The bank's expectation comes in the backdrop of rising oil prices and the possibility of a sub-par monsoon that could push up prices.

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## PITCH REPORT

**WHAT:** IPL final match
**WHERE:** Eden Gardens, Kolkata
**WHEN:** May 24

**WHAT TO LOOK FOR:** Multiscreen Media, the official broadcaster of the eighth edition of the Indian Premier League, is raking in the moolah, with online retailers taking the lead. The top two advertisers remain the same as last year, Vodafone and Amazon, respectively.

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India's Falling
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# Bumpy Ride Ahead

**India's economy is on the mend but markets are likely to be volatile in the short to medium term.** By MAHESH NAYAK

The recent volatility shows how vulnerable Indian stock markets still are. A $1-billion outflow from foreign institutional investors (FIIs) in the first 10 days of May has created panic in the market that saw the Bombay Stock Exchange's benchmark Sensex drop below 27,000 for the first time in 2015. Since touching an all-time high of 30,024.74 on March 4, the Sensex slipped 12 per cent to a low of 26,423.99 on May 7, a level last seen in October 2014. And analysts say investors will have to live with market volatility in the near term due to a lack of positive developments.

"This [investor behaviour] is not new to Indian markets. Even a small sell-off creates panic and all of a sudden everyone feels it's the end of the tunnel," says I.V. Subramaniam, Managing Director and Chief Investment Officer at Quantum Advisors. "The reality is that not much has changed since the general elections last year. This has made investors nervous and they are evaluating whether

**EBB AND FLOW**
The fluctuations in the Sensex in 2015

they should hold on in a market where many stocks are trading at 25-30 times [price-to-earnings ratio] when there is strong anticipation of a rise in US interest rates," he says, referring to concerns that rising bond yields in the US could prompt FIIs to pull out money from Indian equities.

Fund managers say muted growth in corporate earnings also led to caution among investors. "Corporate earnings have not been up to the mark and, as a result, equity markets have witnessed healthy consolidation," says Sankaran Naren, CIO of ICICI Prudential Mutual Fund. Gopal Agrawal, CIO at Mirae Asset Management, concurs. "It will be a while before corporate earnings start regaining momentum," he says.

**THE MONSOON, MONETARY POLICY, EARNINGS AND GST AND LAND BILLS ARE THE MAIN TRIGGERS FOR THE MARKETS**

Foreign portfolio investors are the lifeline of Indian equity markets and the direction of FII flows decides the course of the market. While FIIs have been booking profits in view of the bull run, the uncertainty over FII taxation is another major reason for the sell-off. The income-tax department had earlier sent notices to several FIIs demanding minimum alternate tax on capital gains made by these investors. The government has now set up a panel headed by Law Commission Chairman A.P. Shah to examine the matter, providing a breather to the FIIs.

Unlike the FIIs, domestic mutual funds – flush with cash following heavy inflows over the past year – have been buyers in the falling market. However, other participants such as insurance companies and retail investors have yet to take a plunge into the market. Agarwal of Mirae Asset says that, in the recent market fall, he has exhausted his entire cash position to buy stocks in banking, cement, logistics, pharmaceutical, construction and capital goods sectors. Naren of ICICI says the fund house used the opportunity to reallocate and rebalance its portfolios across all its equity schemes. "A cyclical revival will eventually happen. As a result, cyclical sectors like infrastructure and financials could do well in the long term."

Market participants say that, despite the recent drop, India is in a much better position than before as there aren't any structural problems but only administrative ones. Analysts say the Indian economy is moving in the right direction, but it will take some time to get the desired results. For instance, the government plans to spend four times more than last year on building roads. Similarly, the situation is improving in coal and iron ore sectors where mining is expected to begin soon. In the power sector, state-run companies have started giving orders for electrical equipment. In March, the Narendra Modi government managed to pass three bills – the Insurance Amendment Bill, and the controversial coal and mining bills – by garnering support from a combination of opposition parties in the Rajya Sabha, where it lacks a majority. "Irrespective of the rise and fall in the market, the broader story remains intact as India is a recovery mode," says Agrawal. "Soft commodity prices and government policy will be the key drivers for India. Going ahead, the strategy remains the same – buy on dips."

Source: BSE

AJAY THAKURI

Naren of ICICI sees 2015 as a year of investment. "One should incrementally invest for the long term as and when such opportunities appear. Volatility may continue in the near term till earnings remain muted, credit growth is low, the capex cycle does not revive and banks do not transmit lower rates to borrowers."

The key triggers for the market in coming months are the monsoon, the Reserve Bank of India's monetary policy, April-June corporate earnings and important bills pending in Parliament including on the Goods and Services Tax and land acquisition. Subramaniam of Quantum says investors, especially foreign investors, must temper their expectations. "India can't deliver a sustained 8 per cent growth, but it can record an average 6.2-6.5 per cent growth. Also, with subdued earnings growth in the near term, markets cannot sustain the high valuation," he says. "There is nothing to suggest that one should pay very high valuations to buy stocks." ◆

*@MaheshNayak*

By SHAILESH GANDHI

# Is the RTI Act Being Made Dysfunctional?

The RTI Act has caught the imagination of people and it is being appreciated globally. A great change has come in India in the last decade in the equation between the citizens and those in power. This change is just the beginning and if we can strengthen it, our defective elective democracy could metamorphose into a truly participatory democracy within one or two decades. We have just begun this journey towards a meaningful Swaraj. I believe media and the RTI have been a fortunate heady mix. They have the potential of actualising the promise of democracy.

There are also signs of regressive forces that could stymie these promises. There are two big dangers to the RTI. First, most established institutions are unhappy with it. Those in power feel they should be left to work effectively. It is implied that transparency is a hindrance to good governance. The former Prime Minister [Manmohan Singh] – harried by the uncovering of various scams by the RTI – said at the Central Information Commission's convention in October 2012: "There are concerns about frivolous and vexatious use of the Act in demanding information the disclosure of which cannot possibly serve any public purpose."

The present Prime Minister [Narendra Modi] has taken a preemptive action by not appointing a Chief Information Commissioner to render it dysfunctional. The bureaucracy is hardening its stand and, in most cases, has realised the commissioners are not committed to transparency. This, coupled with the long wait at the commissions and their reluctance in imposing penalties, is making it difficult to get sensitive information that could aid citizens to expose structural shortcomings or corruption.

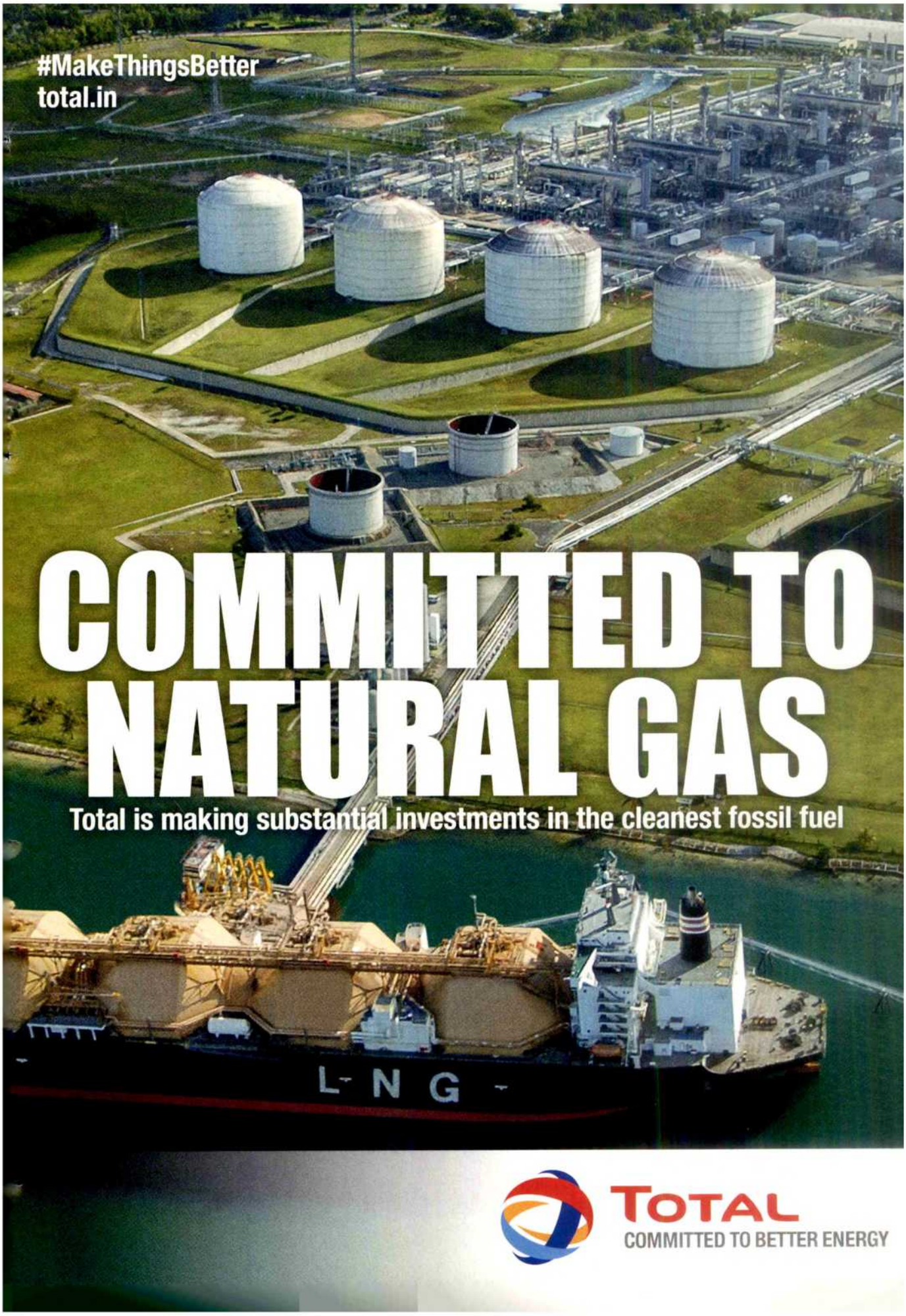
A former Chief Justice of India said in April 2012: "The RTI Act is a good law but there has to be a limit to it." I am amazed at the suggestion that there should be a limit to the RTI beyond what has been laid down in the law by Parliament in terms of exemptions. Any interpretation beyond what is written in the law will violate the citizen's fundamental right to information. We have travelled some distance away from the Supreme Court's statement in S.P. Gupta vs President of India & Ors. (AIR 1982 SC 149) that "exposure to public gaze and scrutiny is one of the surest means of achieving a clean and healthy administration".

Second, a greater danger comes from the selection of information commissioners as a part of political patronage. Most have no predilection for transparency or work. Their orders are often biased against transparency and in many places a huge backlog is being built up as a consequence of their inability to cope. Most of these commissioners do not work to deliver results in a time-bound manner. Commissioners are slowly working less and less. In the Central Information Commission (CIC) six commissioners had disposed 22,351 cases in 2011, whereas in 2014 seven commissioners disposed only 16,006 cases!

Civil society and media are rightly critical of the government for not appointing the balance four commissioners, but at the current rate of disposal, 11 commissioners will not dispose over 25,000 cases a year. In 2014, the CIC received 31,000 cases and presently has a pendency of over 38,000 cases. It is evident that at this languorous pace of working the RTI will slowly become like the Consumer Act – mainly in existence for the commissioners. The citizens must wake out of their slumber and focus on getting commissioners who will dispose over 6,000 cases each year and give clear signals they will not tolerate tardiness from public information officers or commissioners.

Eternal vigilance is the price for democracy. We have a very useful tool to make our democracy meaningful and effective. It will work and grow if we struggle to ensure its health. We need to put pressure on various institutions so that they restrain from constricting our right, ensure a transparent process of selection for commissioners and adequate disposal of cases at the commissions. If we are lazy, this right will also putrefy. ◆

***Shailesh Gandhi** is former Central Information Commissioner*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# Still in Control

## Why the latest oil price spike may not hit Arun Jaitley's Budget math.

**By ANILESH S. MAHAJAN**

On July 10 last year, while presenting his first Union Budget, Finance Minister Arun Jaitley shared his two worst fears for the year. One of them was rising oil prices. His prayers were answered. Oil prices more than halved in the next few months (see *Oil Slide*), yielding huge savings on fuel subsidy, which fell from ₹85,378 crore in 2013/14 to ₹60,270 crore in 2014/15. He used the cushion to control the fiscal deficit.

Now, that cushion is getting a bit frayed. Oil is now trading near $67 a barrel, 45 per cent higher than the low of $46 touched in January. In the first fortnight of May, it rose 13 per cent; the rise was steeper in rupee terms as the currency has fallen three per cent against the US dollar in the last one month.

**CRUDE OIL PRICES HAVE RISEN 45 PER CENT SINCE JANUARY AND 13 PER CENT SINCE THE START OF MAY**

While some fear that this may upset a lot of assumptions made in the Budget, Jaitley still has a lot of headroom to manoeuvre. For one, the 2015/16 Budget's fuel subsidy projection of ₹30,000 crore has been made assuming crude oil at $70 a barrel. The current price of $67 – which most experts are already saying is too high and will correct – is still lower than what the Budget assumes.

However, what is a bit more worrying, though manageable, is the rise in the import bill. India imported crude oil worth $138 billion in 2014/15. If this figure rises, trade and current account deficits will widen, pressuring the rupee. Falling rupee is not good for foreign investors as it lowers their returns in dollar terms. Though there is a fear that this may hit plans to attract capital to the country, it may not turn out to be a serious issue. This is because India's current account deficit is well under control. It is projected to be less than one per cent of gross domestic product (GDP) in 2014/15. It was 1.6 per cent in October-December 2014 and two per cent in July-September 2014. These figures, much lower than the scary 4.7 per cent touched in 2012/13, should be well within the comfort zone of foreign investors.

**₹13,000 CRORE**
Amount raised from the additional excise duty that is spent on building roads

Bank of America Merrill Lynch had, in a report in May, revised the current account deficit forecast to 0.8 per cent of GDP for the current financial year. Its earlier projection was 0.7 per cent. The rise in crude oil prices played a vital role in this change.

However, two areas where rising oil prices may test the government's resolve

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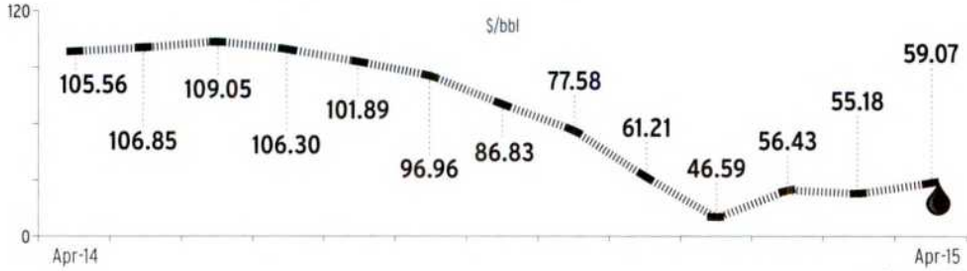
## OIL SLIDE

Crude oil prices more than halved between the middle of 2014 and January 2015




Source: PPAC

is subsidy reforms and inflation. It deregulated diesel prices last year. Now, prices of diesel, like that of petrol, follow global trends and are changed without government intervention. This worked fine when crude oil prices were falling. Now, experts are asking if oil prices rise steeply, will the government continue to pass on the burden to consumers or absorb a part of the increase, effectively rolling back one of its key subsidy reform? Only time will tell, though the government seems to have a better handle on the LPG problem. It has started disbursing subsidies directly to bank accounts of 123 million consumers. The 2014/15 Budget kept ₹22,000 crore for LPG subsidy. The government is hoping that direct transfer of funds will bring down leakages and reduce its subsidy bill drastically.

**₹30,000 CRORE**
The projected fuel subsidy for 2015/16, assuming crude oil at $70 a barrel

In response to the global trend, Indian oil companies have increased petrol prices by ₹7.09 a litre and diesel by ₹5.08 a litre in May. If the trend continues, it will start reflecting in the economy's health. Though consumer price inflation fell from 5.3 per cent in March to 4.9 per cent in April, it is likely to spike again if petrol and diesel prices continue to rise. Food prices may also go up as transport costs increase. Back-of-the-envelope calculations indicate that a five per cent change in petrol and diesel prices impacts consumer price inflation by 45 basis points. The Bank of America Merrill Lynch report also indicated that Indian authorities may be confident about keeping inflation below six per cent but oil prices continue to be a threat.

This is especially worrisome in light of the crisis that people are facing in large parts of rural India due to crop damage in recent rains. With the monsoon, too, predicted to be weak, the rural poor will be under a lot of pressure if the country goes through another round of high inflation, testing the government.

Further, Jaitley last year levied additional excise duties on petrol and diesel with an aim of raising ₹13,000 crore a year to build roads. The market fears that if oil prices keep going up, he will have to cushion customers by lowering these duties. But the road ministry, working overtime to kick-start the country's road building programme, can ill-afford any cut in funding at this stage. In the 2014/15 Budget, it was allocated ₹40,000 crore, including the money collected from these additional duties. However, indications from finance ministry officials are that they are comfortable with the duties as long as crude oil prices stay below $80 a barrel.

This, say experts, is likely, as the global oil market is still in surplus. Also, many in industry hope that things may improve in future as more Iranian and US supplies come to the market in response to higher prices.

But for now, the spotlight is on the Reserve Bank of India's monetary policy in June. Will Governor Raghuram Rajan reduce interest rates or cite inflation worries and delay easing till there is more clarity on oil prices? For him, too, it seems to be a tough call. ◆

@anileshmahajan

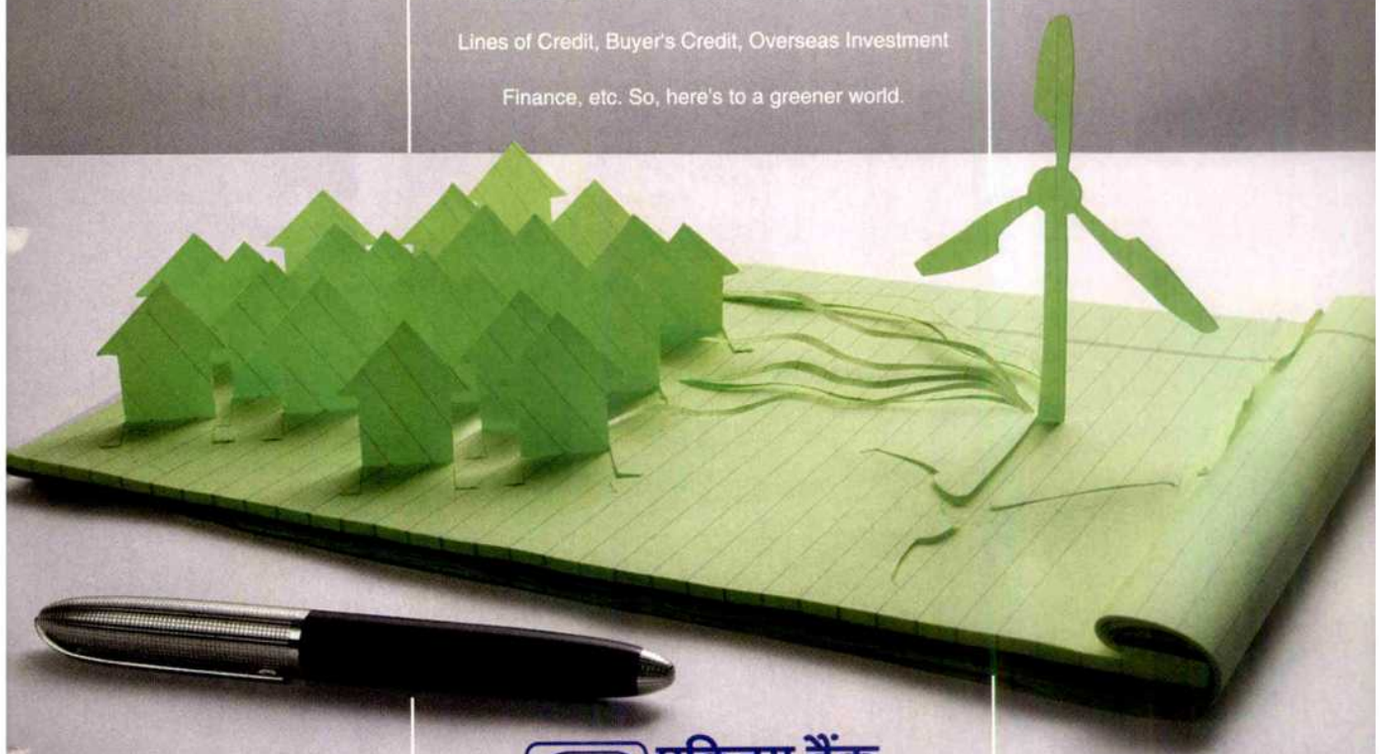
**INDIA IMPORTED CRUDE OIL WORTH $138 BILLION IN 2014/15. IF THIS RISES, TRADE AND CURRENT ACCOUNT DEFICITS WILL WIDEN**

# EXIM Bank
# Green Bonds

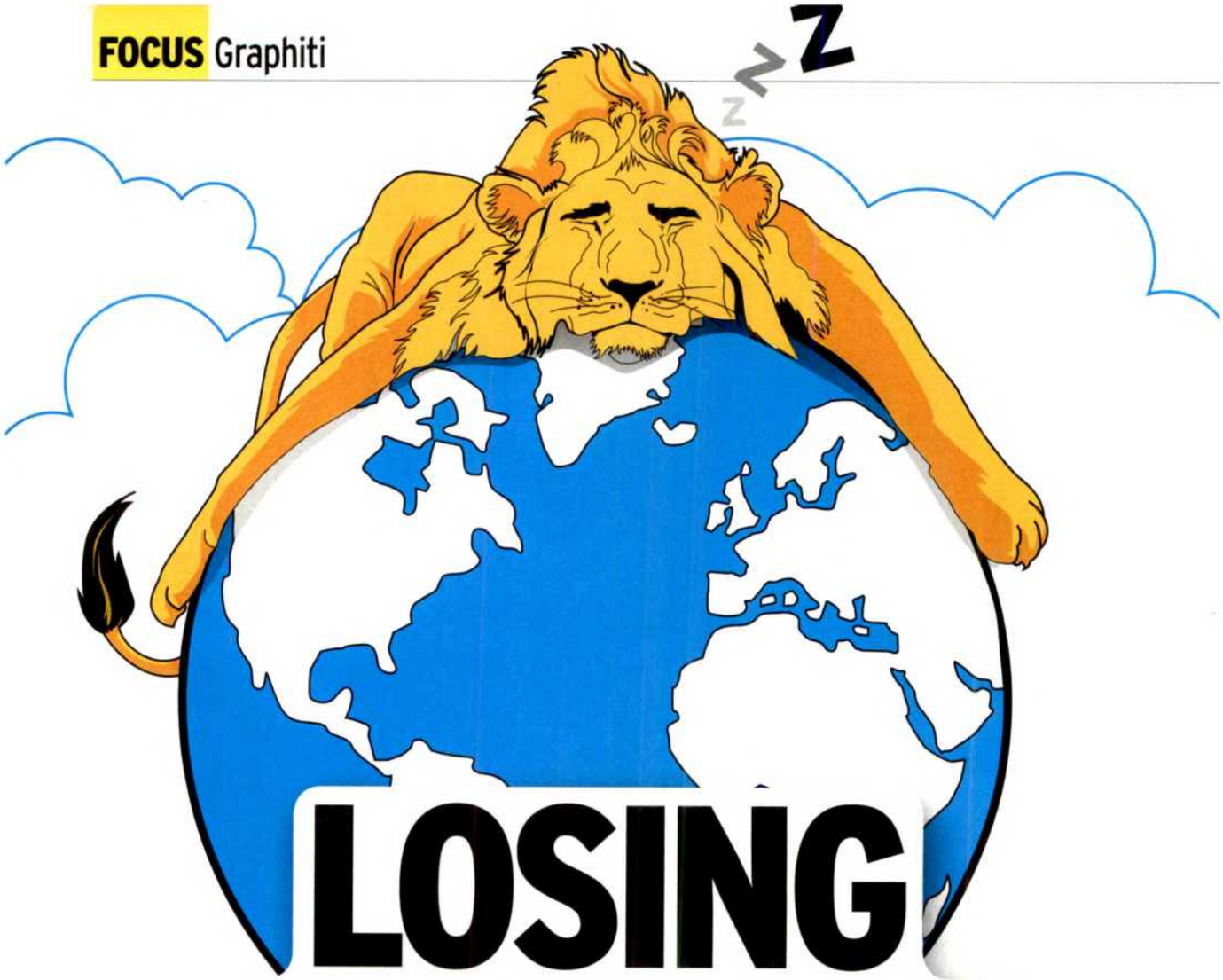
## Supporting sustainable Infrastructure Projects in South Asia.

A lot of ideas about sustainability remain on paper. Which is why, Exim Bank, a statutory institution wholly owned by the Government of India, has successfully launched India's first ever Green Bonds in the international market. Proceeds from the same will be used to support green projects in South Asia, especially in Sri Lanka and Bangladesh.

Exim Bank finances, facilitates and promotes India's foreign trade. It has assisted more than 120 Indian companies in reaching over 100 countries by way of Lines of Credit, Buyer's Credit, Overseas Investment Finance, etc. So, here's to a greener world.



एक्ज़िम बैंक
EXIM BANK
भारतीय निर्यात-आयात बैंक
EXPORT-IMPORT BANK OF INDIA



# LOSING APPETITE

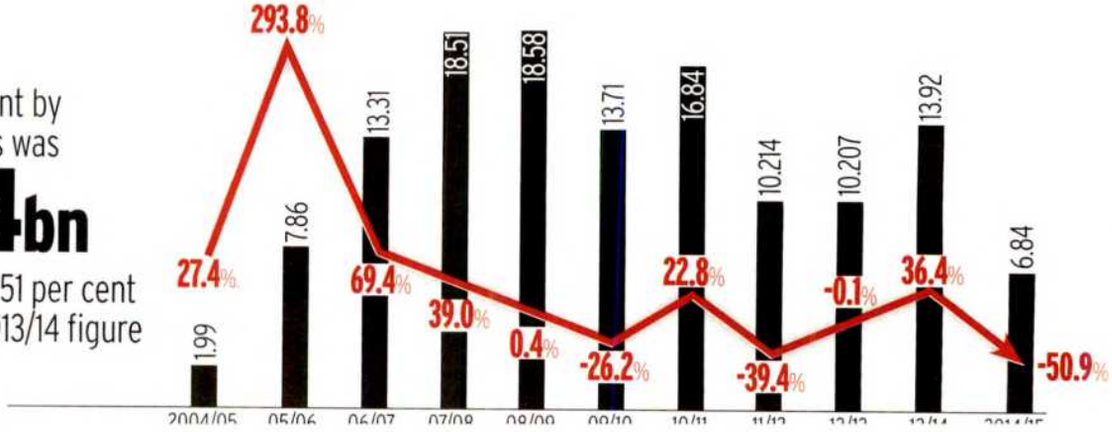
India Inc's overseas investment fell to a 10-year low in 2014/15, a sharp drop from the heady years of 2008/09 when companies were aggressively pursuing global ambitions

Graphic by: **Anand Sinha** Research by: **Niti Kiran**

Foreign investment by Indian companies was

**$6.84bn**

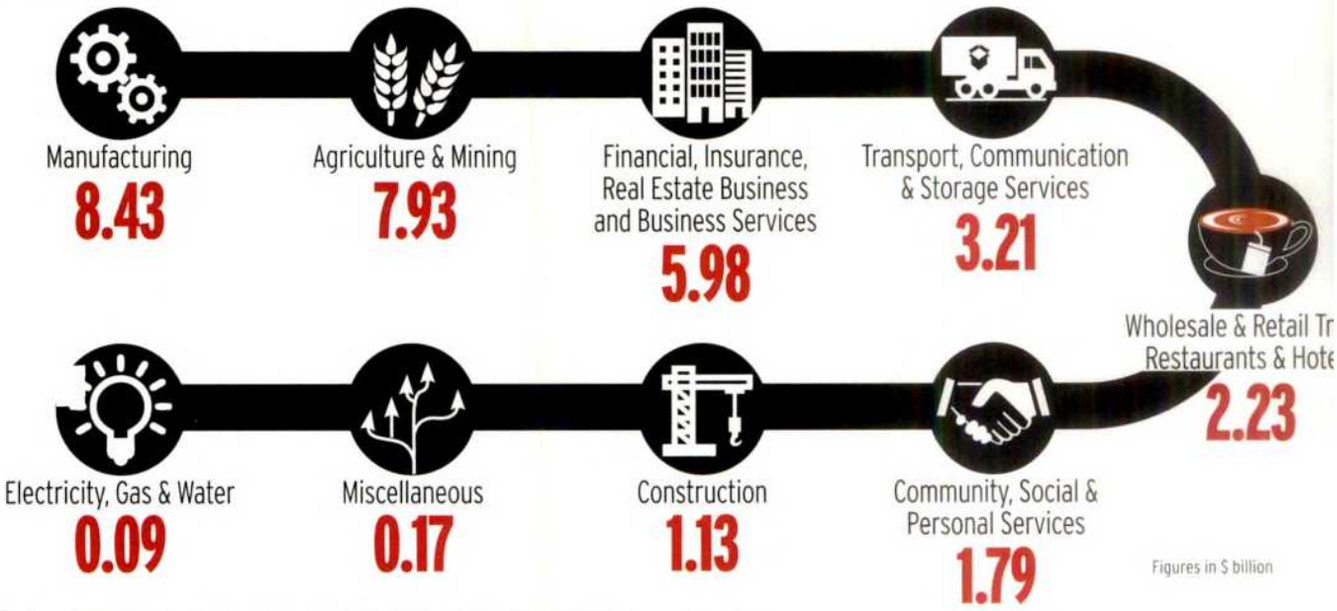
in 2014/15. This is 51 per cent lower than the 2013/14 figure



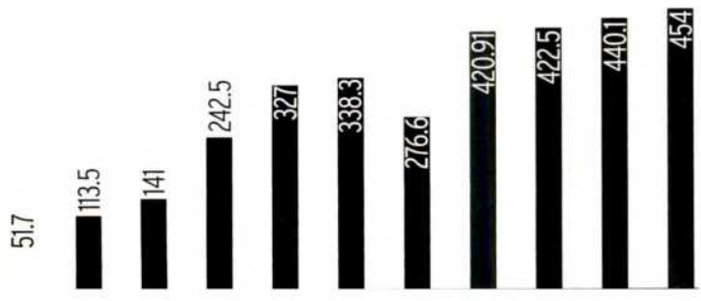
## 2 The investment flows are getting diversified. Mozambique and Australia managed a place in the top 10 recipients during 2013/15

| % share (2009-12) | | % share (2013-15) |
|---|---|---|
| 32.3 | Singapore | 15.9 |
| 26.5 | Mauritius | 15.7 |
| 16 | Netherlands | 13.6 |
| 9.1 | United States of America | 13.5 |
| 5.7 | United Arab Emirates | 4.9 |
| 3.5 | British Virgin Islands | 14.9 |
| 3.5 | United Kingdom | 4.8 |
| 1.4 | Cayman Islands \| Mozambique | 10.1 |
| 1.1 | Hong Kong \| Australia | 1.7 |
| 1 | Switzerland | 4.9 |

## 3 The largest chunk of these investments has gone to the manufacturing sector, followed by agriculture and mining, between 2012/13 and 2014/15




## 4 Investments by developing economies outside their borders show a rising trend




CONCLUSION

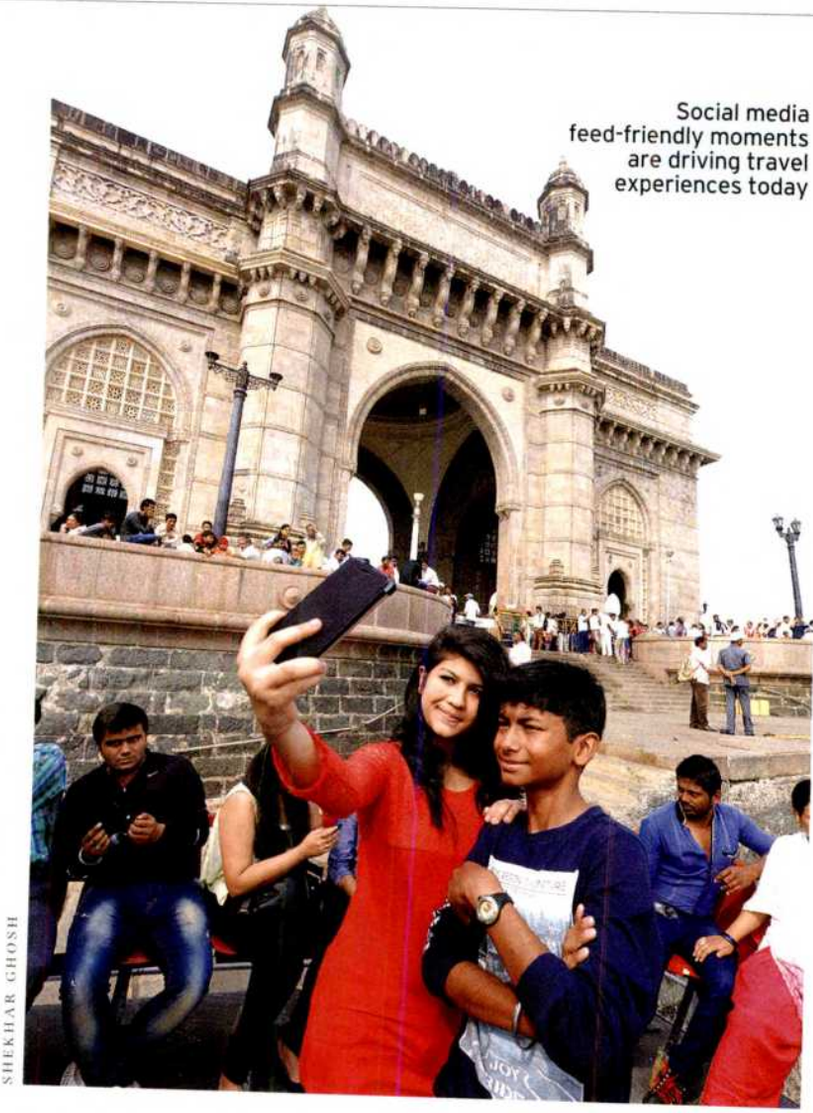
**INDIA COMPANIES ARE ON A WAIT-AND-WATCH MODE AS THEY STRUGGLE TO BOOST EARNINGS AND REPAY THE MASSIVE DEBT ON THEIR BOOKS AMID A PROLONGED SLOWDOWN AT HOME.**

WHAT'S TRENDING

# The Rise and Rise of Social Travel

## Expect a big disruption in the distribution chain as social networks change the way we travel.

By **CHITRA NARAYANAN**



SHEKHAR GHOSH

Social media feed-friendly moments are driving travel experiences today

Dawn break at the Angkor Wat temple is a must-see ritual for tourists visiting Cambodia. As the sun slowly begins to rise from between the triple towers of the temple, you can see hundreds of hands go up. No, they are not raised in supplication – but all are holding up mobile phones clicking away the sunrise, which in a matter of seconds will be shared across social networks globally.

Welcome to the world of social travel and a growing tribe of social capital seekers. This is a tribe of travellers who document their journeys every inch of the way on social media. So much so that a new report by Amadeus and Future Foundation – *Future Travellers 2030: Understanding Tomorrow's Travellers* – predicts that it will impact the travel economy in a big way. The report divides travellers into six tribes – cultural purists, social capital seekers, ethical travellers, simplicity searchers, obligation 'meeters', and reward hunters.

Each tribe will shape the travel economy of the future, but, undeniably, the social capital seekers, who look at feed-friendly moments and rely on peer reviews to plan their travel, are already changing the way the industry operates.

There is a clear tendency amongst this tribe to trust real people's statements over sales pitches from travel agencies. Decision-making will be validated, or even outsourced entirely, to an online electorate. "Trendy" destinations will be preferred. "Bucket lists" will be consciously or unconsciously crowd-sourced, says the report.

DIGITAL DASHBOARD

### Smartphone Snacking

Mobile broadband usage in India: Users are displaying a growing appetite for financial services and cloud storage services

Based on a face to face survey of 4,500 smartphone mobile Internet users in 10 disparate cities in India. This sample is estimated to represent 127 million smartphone users in urban India
Source: Ericsson ConsumerLab, The changing mobile broadband landscape, India 2015

We are already seeing much of this being played out as a growing band of travellers rely on TripAdvisor and Airbnb more to plan out their itineraries rather than go to a travel agent.

So what are the implications?

It could mean a serious disruption in the distribution chain and a reduction in the number of intermediaries. Travel agents could see business drying up – unless they embrace social travel, too, and come up with apps or get onto social networking platforms in a big way and close deals in real time.

Smarter operators are beginning to do so. A case in point, the report says, is Stayful, which allows travellers to reach it through Twitter through the hashtag #TweetStay. Customers can tweet @Stayful asking for a hotel within a specified budget. Stayful travel experts negotiate in real time with hotels and get back with great offers.

As peer to peer outfits mushroom, travel operators need to watch out. Airbnb, which started with peer-to-peer lodging offers, is now moving into offering tours. Be it food, guided tours, or lodging, it's all becoming peer to peer with no intermediaries in the picture. For example, apps like TinyOwl get home-cooked meals made by home chefs delivered. SeekSherpa, Padharo and BeTheLocal are all travel start-ups that connect tourists with local people who act as guides and conduct unique micro tours.

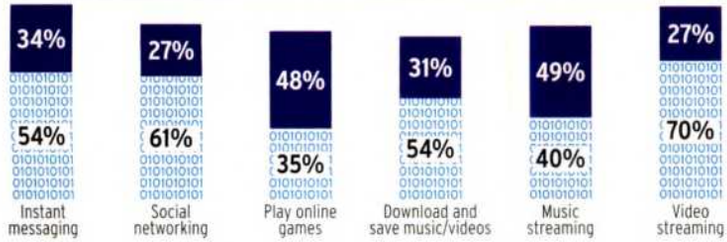
As the Future Travel report predicts, "social media booking agents will become ubiquitous, travel agents will go social, third-party expert researchers will be a common conduit to purchase".

Disruptive start-up OYO Rooms founder and CEO Ritesh Agarwal feels: "My sense is that intermediation will not end, but will evolve. In future, online travel agencies will become way more smarter. Their ability to deliver experiences will become better. They will be able to do a lot of things that peer to peer operators will not be able to do. Today, they are front ending agents who work on a commission to get a customer, but in future it will be against a value proposition – say last minute reservations or something like that."

And increasingly travel tours will have to cater to "feed-friendly experiences". The mandatory halt to take pictures will now have to include time to click and share! With the advent of Periscope and Meerkat, which allow live streaming of videos across social channels, you can expect real-time video feeds of family trips now. As the report says: "Appetite will be ravenous for moments of shareable wish-fulfillment." This means there must be everywhere connectivity to share photo and video files.

In 2030, 20 per cent of the world's population (estimated to touch 8.5 billion) will be travelling. A good 80 per cent will be networked socially. And will demand personalised experiences. This means pricing will also get personal, and travel companies will need to invest in differential pricing mechanisms and tools. ◆

*@ndcnn*




## LISTENING POST

### Wooing with Weibo

Suddenly, Weibo is where all the action is, with Apple CEO Tim Cook joining Sina Corp's Twitter-like microblogging service. With Apple announcing big plans for China, Cook's move to join Weibo is not surprising - especially as Twitter and Facebook are banned in China. Weibo's 200 million active users also welcomed Indian Prime Minister Narendra Modi onto the platform during his recent visit to China. Modi, who joined Weibo shortly before his tour of the Middle Kingdom, showed how adept he is at social media diplomacy as he posted pictures of his meetings and kept up a flow of posts. The best way to breach the bamboo curtain may be through social networks!

### Flickr of Life!

From being every photographer's dream hosting site, Flickr got a bit left behind when Google Picasa (and Plus) began unleashing feature after feature. Now Yahoo!, which bought the photo sharing site in 2005, is finally trying to infuse a flicker of life into the site. Among the new features that the 112 million Flickr users can now use are Yahoo!'s new Auto Uploadr that will automatically upload photos on to the platform. An image recognition technology helps group and organise the photos better. Looking for a picture also gets easier with a unified search experience. Sharing pictures, too, has become a lot simpler. But, the site's new auto tagging feature has met with instant censure from its users and there are reports that Yahoo! might have to roll this back. You cannot win them all!

### Flirting with Meerkat

Twitter may have cold-shouldered video live streaming app Meerkat due to the launch of its own Periscope, but Facebook is getting friendly with the app. As Meerkat added FB support features to its app (you may now be able to livestream videos using the app on your FB wall), rumours of a possible acquisition have got louder.

# Is an independent

By SHANKAR RAMAN

## It will lead to more transparency

The merits of setting up an independent Public Debt Management Agency (PDMA) has been adequately debated for more than two decades now and there is very little scope left for any new deliberations on this. Many developed countries have shifted to an autonomous PDMA over the years. And the fact that none of these countries have revisited their decision or have asked central banks to reassume the responsibilities of debt management further reinforces the sustainable advantages of such a transition.

In the Indian context, however, the reason for such prolonged debate is that the Reserve Bank of India (RBI) has done a phenomenal job of public debt management over the years. The RBI has successfully handled its dual role of debt management and monetary policymaking. There has not been a single instance when the market regulation role of the RBI has conflicted with its monetary operations in the money and government securities market. That said, moving towards best practices should be the endeavour of the government, and at some point, we should aim to emulate the independent model, which has proved to be successful across several developed countries.

At present, the RBI is responsible for all internal debt management functions, while external debt falls under the purview of the Department of Economic Affairs under the Ministry of Finance (MoF). Bringing together all government borrowings under one roof is propagated as a key reason for the creation of an independent PDMA. A separate agency, which assigns specific responsibilities and is accountable on its own, will lead to a more transparent and efficient system. This is seen as a necessary step towards deepening of the bond market. Today, the bond market has limited participants, where the RBI, along with the commercial banks, plays a major role in the funding of the government borrowing programme. Once the debt management function is separate from the RBI, the government will hopefully be able to tap funds from a larger pool of resources.

To achieve this objective, the government announced its intentions to set up an independent PDMA as part of its budget proposals. More recently, the government has withdrawn the PDMA-related clauses from the Finance Bill and has deferred its plans in order to implement this in a phased manner. This could be a positive as the government now plans to work in collaboration with the RBI, which has rich experience in the successful management of public debt. This approach is expected to lead to an organised execution based on a well thought-out roadmap.

There are fears of market volatility caused by the shifting of responsibility to a new agency. However, these are temporary concerns that can be alleviated by ensuring that the MoF and the RBI work closely to keep the developments in check. Currently, some RBI officials are acting as coordinators between the government and the central bank in matters related to public debt. While initial challenges are to be expected in this transition, a smoother functioning will follow once credibility is established.

From a broader perspective, it is essential to enable the central bank to direct its attention to the single objective of inflation targeting, as mentioned in the MoU signed between the RBI and government earlier this year. The credibility of such MoU will remain diluted if the RBI is burdened with the role of debt management. The proposed framework will provide clarity to the RBI about its role in inflation management without the conflict of a mandate for achieving lower borrowing cost for the government. Simplicity of objectives is essential for success in the present volatile, uncertain, complex and ambiguous (VUCA) world. The governments and central banks are no exceptions to this. ◆

***Shankar Raman*** *is CFO, Larsen & Toubro*

# PDMA needed?

By AJIT RANADE

## Piecemeal reform simply won't do

Sometimes piecemeal reform simply won't do. The move to separate the Public Debt Management Agency (PDMA) out of the Reserve Bank of India (RBI) is a case in point. The separation of the PDMA is actually a part of a reform that involves at least four other elements. If none of these four other steps are undertaken simultaneously, then taking the PDMA out of the RBI is a worse outcome than status quo. The four steps that must accompany the PDMA separation are:

- Elimination of the SLR (statutory liquidity ratio) requirement for banks.
- Substantial reduction (if not elimination) of public sector ownership of banks.
- Making market valuation of government bonds compulsory (with no exemption).
- Commitment to opening up the capital account, for eventual co-mingling of rupee and dollar sovereign debt.

These four conditions (and doubtless there are other prerequisites as well) already hint at why merely separating the PDMA without any concomitant reform is unwise. The *raison d'etre* of the PDMA is to remove the conflict of interest within the RBI, that is both banker and debt manager to the government, which also fixes interest rates. So an inflationary deficit financing might call for floating more bonds, but will also call for higher interest rates. What will the RBI choose? The RBI has actually managed this so-called conflict quite splendidly for decades. If the PDMA moves to Delhi, then it is more likely that the government of the day may be tempted to push its debt onto bank balance sheets.

Governments have shorter and more political time horizons, so the danger of influence of conflict of interest is more acute. That's why it is essential that banks be freed from the SLR obligation to buy government bonds. This can happen only if the RBI brings down the SLR to zero. That must be a concomitant to moving the PDMA out of the RBI. It is also essential that public sector ownership is reduced, so that Delhi does not have undue influence in forcing banks to hold government debt.

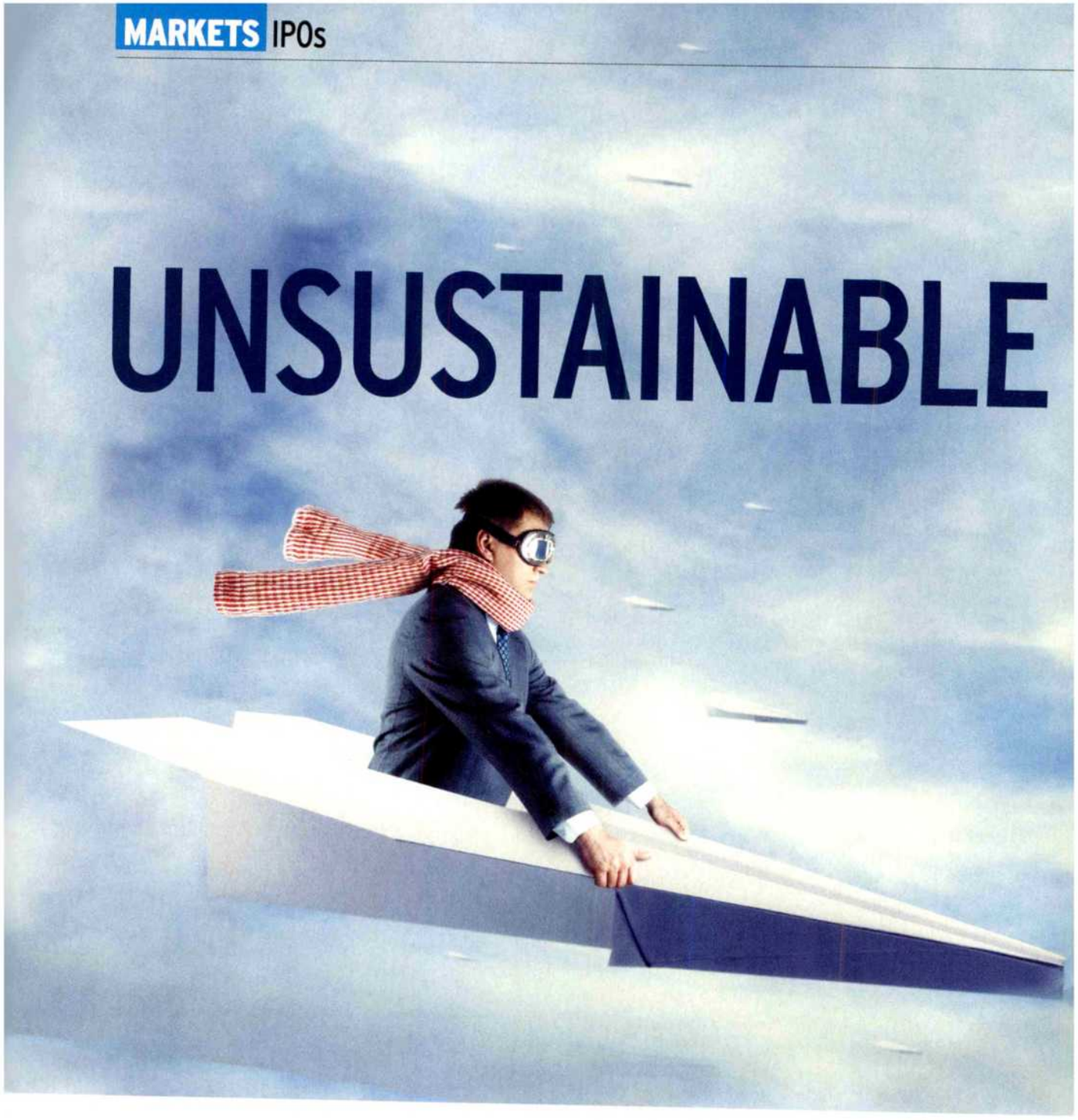
The third issue is of assigning proper market value to government bonds in bank balance sheets. Currently, more than half the government debt is not marked to market. This exemption allows the cost of debt to be insulated from the pressure of the yield curve. Indeed, for past seven years, the average cost of debt for the government has been about 200 basis points below the inflation rate. This low cost was achieved thanks to financial repression (through SLR) and not valuing bonds at with true market prices. Otherwise the banks would have booked huge losses, leading to a regulatory headache.

When under fully independent PDMA with zero SLR regime and market valued bonds, if the cost of debt starts rising, then the government can tap overseas dollar investors, i.e., sell dollar denominated sovereign bonds. But this would call for a much more open capital account. We are certainly not ready for that. Beyond the four issues outlined above, is also the issue of how to deal with state government debt. The PDMA will only manage sovereign debt. Currently, the states' debt rides piggyback on the infrastructure created by the RBI. We will need to address this aspect as well, before the PDMA is separated. In the current scenario of greater federalism, this is an important aspect.

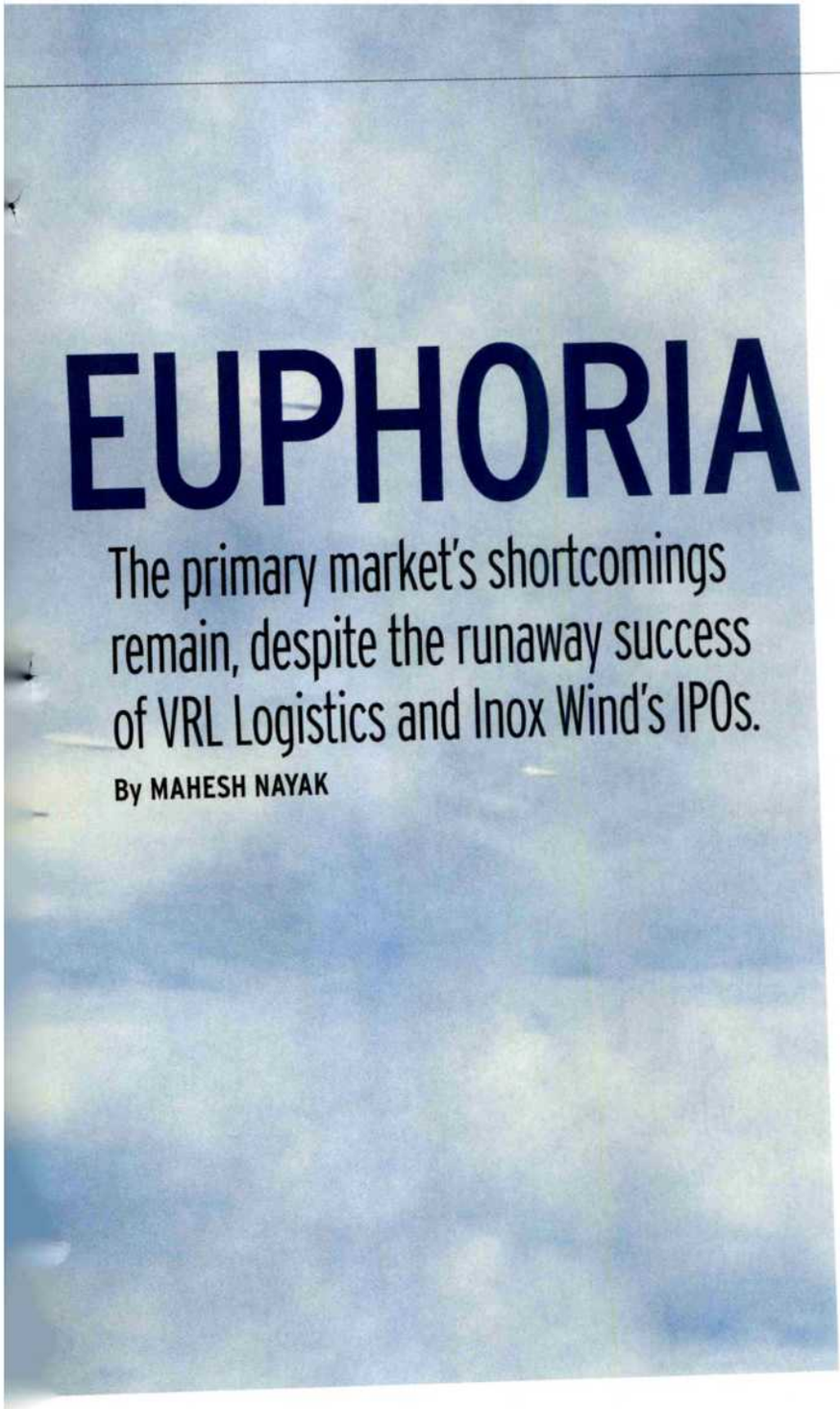
It is not as if we have made zero progress in reforming the government debt and bond reform. The RBI does not automatically monetise debt as it used to. It does not participate in primary auctions. The debt market is fairly liquid, and we have a reliable risk free rate used as a benchmark. The best practice in the world offers mixed evidence in favour of an independent debt office, outside the central bank. What ain't broken need not be fixed hastily. Hence a separate PDMA can wait till the other pieces of the jigsaw are in place. ◆

***Ajit Ranade*** *is Chief Economist, Aditya Birla Group*

# UNSUSTAINABLE



The first lot of application forms was exhausted by 3 p.m. on April 15, the very day VRL Logistics' initial public offering (IPO) opened. When it closed on April 17, the IPO, issued to raise ₹468 crore, had been oversubscribed 74 times – the retail portion eight times, the qualified institutional buyers' portion 58 times and the high net worth individual (HNI) portion 251 times – leaving investors, bankers and stock market analysts stunned. The last time an IPO received such a response was Reliance Power in 2008, which was oversubscribed 73 times. "I was reminded of the mid-2000s when the economy was booming and investors would make a beeline to subscribe to IPOs," says Ravi Sardana, Executive Vice President, ICICI Securities. On



# EUPHORIA

## The primary market's shortcomings remain, despite the runaway success of VRL Logistics and Inox Wind's IPOs.

**By MAHESH NAYAK**

April 30, VRL Logistics debuted on the bourses at a stock price of ₹288, 40 per cent higher than its offer price of ₹205 per share.

It is a striking change from the bleakness of the primary market in the past few years. The Sensex and the Nifty may have been at a high but ever since 2011, IPOs and follow-on public offerings (FPOs) have been few and far between, and their performance, tepid. In all of 2013, there were just three of them, raising a modest ₹1,284 crore. The following year saw five IPOs, but they raised only ₹1,201 crore. Besides, most of those who invested in IPOs in the last seven years and held on to those companies have lost money – over two-thirds of the IPOs issued between 2008 and 2014 are trading below their open-

### STRONG PIPELINE

**Companies likely to issue IPOs or FPOs in 2015**

| COMPANY | AMOUNT TO BE RAISED (₹ CRORE) |
|---|---|
| GMR Energy | 1,700 |
| Rashtriya Ispat Nigam | 1,500 |
| Aster DM | 1,525 |
| Amalgamated Coffee | 1,460 |
| AGS Transact | 1,345 |
| ACB India | 930 |
| Lavasa Corp | 750 |
| Sadbhav Infrastructure | 650 |
| Narayan Healthcare | 550 |
| Thyrocare Technologies | 500 |
| HCG | 500 |
| Manpasand Beverages | 400 |
| Power Mech Projects | 180 |
| Uniparts | 155 |
| SMC Global Securities | 125 |
| Shree Pushkar Chem. & Fertilisers | 75 |

Amount to be raised is approximate
Source: Prime Database, Industry

ing price (see *Diminishing Draw*).

But 2015 seems to be a striking departure from the past. There have already been six IPOs in four months, which raised ₹2,962 crore. Before VRL Logistics' sterling performance, Inox Wind in March also caused a stir, its ₹1,020-crore IPO being oversubscribed 18.6 times. The remaining months of the year are likely to see 15-20 more IPOs and FPOs on the main domestic bourse, which hope to raise an estimated ₹15,000 to ₹18,000 crore (see *Strong Pipeline*). Though this falls well short of the high of 2010, when 64 IPOs and FPOs were issued raising ₹37,535 crore, does it imply a revival of the primary market?

## Divided View

Analysts are divided in their opinion. "The VRL Logistics IPO shows money is easily available for good issues," says Sardana. "If investors feel confident of making money on an issue, they will be more than happy to latch on to it." Prithvi Haldea, founder of market research firm Prime Database, agrees cautiously. "It may be too early to speak of a revival, but some build-up is certainly taking place," he says. Activity has definitely increased. "In the past week, we have been filing one issue every three hours or so," says Dharmesh Mehta, Deputy CEO at Axis Capital.

Not all IPOs of 2015, however, have been successes. In fact, the first two – Ortel Communications and Adlabs Entertainment – performed disastrously. The Ortel IPO raised around ₹174 crore but remained undersubscribed, while the Adlabs IPO, raising ₹375 crore, managed full subscription only after extending its closing date by three days and lowering its initial price band. Both saw their stock price fall on their opening day at the bourses.

So too, the two IPOs following VRL Logistics have received lukewarm response – MEP Infrastructure's issue managed an overall subscription of just 1.1 times raising ₹324 crore, while UFO Moviez, raising ₹600 crore, was oversubscribed twice its issue size. "All issues are not going to be successes," says V. Jayasankar, Senior Executive Director and Head of Equity Capital at Kotak Investment Banking. "One in three issues will be subdued. That does not mean there has been no revival."

But there is no dearth of sceptics. "There are no large issues waiting to hit the market and until we see issues of ₹2,000 crore or so, I don't think we can call it a revival," says Ashutosh Maheshwari, CEO, Motilal Oswal Investment Advisors. "Unless corporate India undergoes a turnaround, there will be no turnaround of the primary market." For all the government's efforts to boost growth, that prospect still seems far away, with most companies struggling to reduce debt and operating at lowered capacities.

Arun Kejriwal, founder of Kejriwal Research and Investment Services (KRIS), believes VRL Logistics benefited because of the sector it belongs to. "There is a herd mentality among investors," he says. "These days any company belonging to sectors such as pharma, health care, consumer products or logistics, evokes interest. Investors rush in without analysing the company. Snowchem Logistics is doing well, so people think VRL Logistics will perform similarly." (This does not, however, explain the success of renewable energy company, Inox Wind.)

**ARUN KEJRIWAL**
Founder/ KRIS

"There is a herd mentality among investors. **Investors rush in** without analysing the company"

## The PE Factor

One reason why market analysts hesitate to affirm a primary market revival is that a number of the companies which are filing IPOs have private equity (PE) funding. With the life cycle of the funds in these companies coming to a close, and the secondary market – as indeed the bourses overall – doing well, PE firms are anxious to exit and may have pressured the companies to go in for IPOs. UFO Moviez, for instance, saw a 100 per cent offer for sale by its PE investors, Providence Equity and 3i Research.

Some analysts feel the poor performance of Ortel Communications and Adlabs Entertainment IPOs could well be due to PE pressure making their price bands too high. "When the secondary market is doing well, there is a tendency to price the issue aggressively, but the market rejected those two IPOs," says Haldea. Global PE firms which invested in India have also been affected by the rupee's slide in the past few years and may be keen to cut their

losses. "With rupee falling from 37-38 against the US dollar in 2004/05 to ₹62 now, the PE firms have lost 50 per cent of the value of their investments," says Kejriwal. "They are desperate to exit."

## Future Uncertain

How will IPOs fare in coming months? "Mutual funds are flush with cash, with around $10 billion having come in last year, which augurs well for forthcoming IPOs," says ICICI Securities' Sardana. Indeed, some leading mutual funds such as ICICI Prudential Mutual Fund and HDFC Mutual Fund have been anchor investors in recent IPOs.

But Kejriwal believes systemic changes are needed for genuine revival. "There is an intrinsic weakness in the way IPOs are priced," he says. "Companies try to fool prospective investors. Anchor investors decide the price and then the company tries to pump it up to that level in the grey market, to lure the retail investor when the issue opens." Investment bankers preparing the issue, oblivious to the interests of ordinary investors, encourage such greed. But the hype does not last once the company lists on the bourses – the share price often tumbles soon. "It was believed bringing in an anchor investor would give stability to an IPO's share price, but something entirely different is happening," he adds.

If reform is to be brought about, market regulator Securities and Investment Board of India (SEBI) will have to take the initiative. "It is time the regulator thinks of a new method of pricing IPOs, finds a middle path between the current free pricing and controlled pricing," says Kejriwal. Others accuse the regulator of becoming increasingly slow to clear IPOs. "Earlier SEBI took 45 days, now it takes 75 days on average," says a senior investment banker who does not want to be named.

Another major drawback, according to analysts, is that the pool of retail investors in IPOs is not growing. There are no new participants. "New investors will come once IPOs starting making money," says Sardana. "It is not just India. IPO markets have been sluggish across the world following the global slowdown." What kind of companies will come out with IPOs in coming years? "There are few large unlisted companies left in India," Sardana adds. "Going ahead, we will predominantly see listing by mid-sized and small companies. Also, once economic activity improves we can see large conglomerates listing their subsidiaries separately."

Adds Jayasankar of Kotak, "This year most issues hitting the market will be around $100 million (₹600 crore), while a few will be in the range of $100-300 million." Sardana says there has been a revival, but it will be short-lived. "Given the current momentum, many issues may sail through and investors will make some money," he says. His advice? "Ride the wave while it lasts, but take care to exit before the tide turns." ◆

@MaheshNayak

**RAVI SARDANA**
Executive VP/ ICICI Securities

**"Ride the wave while it lasts, but take care to exit before the tide turns"**

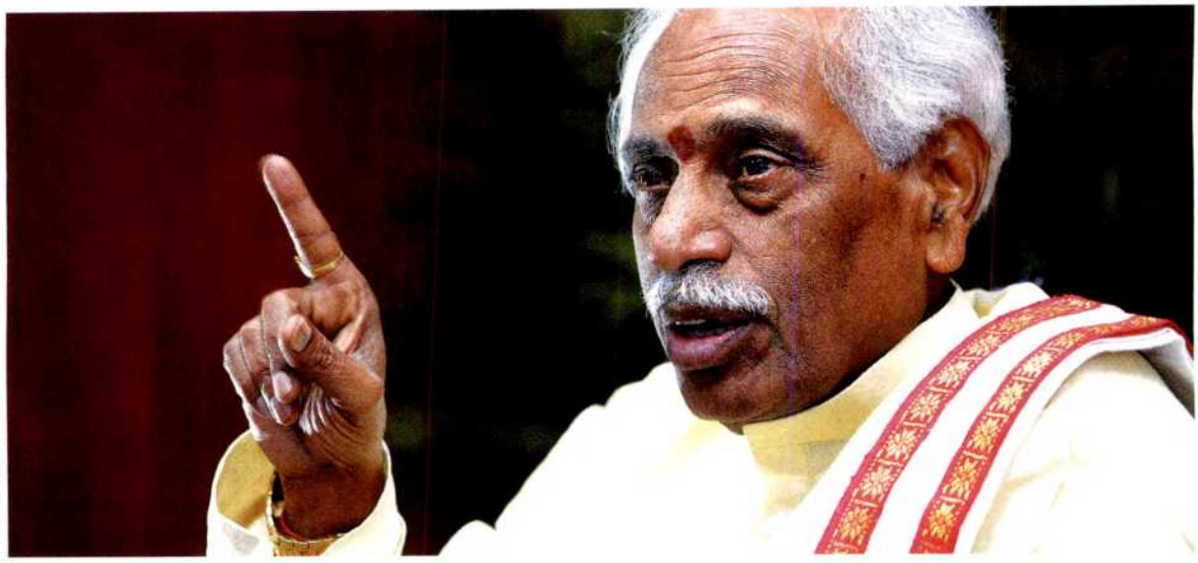
## DIMINISHING DRAW

**Funds raised by IPOs and FPOs have fallen sharply since 2011**

| YEAR | MONEY RAISED VIA IPOs AND FPOs (IN ₹CRORE) | NO. OF IPOs AND FPOs | NO. OF FIRMS TRADING BELOW IPO PRICE |
|---|---|---|---|
| 2008 | 16,904 | 37 | 30 |
| 2009 | 19,544 | 20 | 14 |
| 2010 | 37,535 | 64 | 46 |
| 2011 | 5,966 | 37 | 24 |
| 2012 | 6,835 | 11 | 3 |
| 2013 | 1,284 | 3 | - |
| 2014 | 1,201 | 5 | 1 |
| 2015 (till April) | 2,962 | 6 | 4 |

All companies listed on the main board

# "No mechanism to monitor children working at home"



VIVAN MEHRA

*Minister of State for Labour and Employment* **BANDARU DATTATREYA** *calls it a historic step. The Union Cabinet has finally cleared the 2012 Child Labour (Prohibition and Regulation) Amendment Bill, which for the first time bans employment of children below the age of 14 years in all occupations and processes to facilitate their enrolment in schools. The Bill prohibits employment of adolescents (age bracket of 15 to 18) in hazardous occupations and processes. It also regulates the conditions of service of adolescents in line with the International Labour Organization conventions.*

*Amidst all the congratulatory messages, Shram Shakti Bhawan in New Delhi, which houses the labour ministry, has also come under fire for some provisions in the Bill. For instance, it has been clearly stated in the Bill that there would be no bar on children helping their families – after school hours and during vacations – in fields, home-based work and forest gathering. This clause lends itself to misuse, say critics. On May 13, after the Bill was cleared by the Cabinet,* Business Today*'s* **SARIKA MALHOTRA** *met Dattatreya to get a perspective on the government's plans to combat child labour, given the blurring lines between 'helping' the family at home and 'working' and mechanisms to monitor it. Edited excerpts:*

### *The Cabinet has cleared the Amendment Bill...*

Today, the Cabinet has cleared the Amendment Bill. It is a historic step. Earlier, there were certain professions and occupations where child labour was allowed. Now, under 14 years, it is totally prohibited. Those above 15 years cannot work in hazardous areas. Also, children will not be allowed to work with family members in hazardous industries. In non-hazardous areas, after school hours, they can help their family. For family members, there is no cognizable offence and their first offence is pardoned. For the second offence, they can be fined ₹10,000. However, for the employers we have stringent mechanisms in place. For the employer, first offence is six months to two years imprisonment and second offence is one to three years imprisonment. Penalty has been increased from ₹20,000 to ₹50,000. And, for the first time in this Bill, a rehabilitation fund, Child Welfare Fund, is also provided. It will be used for rehabilitation of the rescued children. Our basic purpose is to safeguard the childhood of every child in the country

and to see that they go to school.

***Why do you call it historic?***

It is historic on account of two reasons. Total ban till the age of 14, and the relaxation given to parents if children are helping them at home. If a child is working in his own home and if the parent is imprisoned for that, what will the situation be like? If parents are sent to the jail, what will happen to the children?

***Given India's socio-economic realities, is the under 14 ban a solution?***

In line with the Right to Education, a child has to go to school. After school, he can work for up to two to three hours in home-based enterprises or help his parents. As long as the children work after school hours or during vacation in a job which is not detrimental to their physical and mental health there is no ban on work.

***How can the government monitor that the child is only working for two to three hours after school and not eight hours?***

That we cannot monitor. And monitoring it will lead to more complications. That's why, to ease it out, we want awareness among parents about educating their children. We want NGOs and the society to play a constructive role in spreading this awareness.

***In the Bill, children are allowed to work at home and help their parents. A lot of children are, anyway, working at home and not in factories. Do we have a mechanism in place to check if the children are just helping parents or are bread earners?***

It is a very serious concern and children are exploited. To curb this exploitation, state governments have to be involved more. Presently, labour departments were involved in the enforcement of the Child Labour Act. Since the labour inspectors have a limited jurisdiction for effective implementation of the Act, involvement of the district administrative machinery is important. More powers will be given to district magistrates. District magistrates, labour inspectors and state officials will have to work in tandem on this. That is why in segments where much of child labour is involved – textiles, carpets, handicrafts – implementation will be the key. Wherever a child is seen working, he should be freed. District magistrates and labour inspectors should free child labour. Stringent action should be taken. Second step is to create awareness through NGOs and third is to have child labour rehabilitation centres. These centres will give training and also provide employment. Formal education will not be given in these centres, but skills will be imparted, vocational training will be provided.

***With a big thrust on Make in India, how does the government plan to deal with child labour in the unorganised space?***

In the unorganised space – mostly construction workers, *bidi* workers, households, handicraft – we should make sure that more skills should be imparted. We want that children who have completed standards eight, nine and 10 should be given onsite training. After completing eighth standard, they should not be waiting for three to four years for training in ITIs (Industrial Training Institutes), therefore onsite training becomes important. We also plan to provide a stipend to them. This combination of a prior learning scheme which will include 100 to 200 hours training and a stipend of ₹35 per hour will be very beneficial for the child, as he will not lose his wages and at the same time he will get requisite training. Also, after getting the necessary training his wage will automatically increase. For instance, if today he is getting ₹200, after acquiring the skills he can get ₹350 to ₹400. Be it the electrician, plumber, radio and cellphone mechanics – all these are major areas with more employment opportunities, but there are no skills. There is a huge workforce, but without adequate skills. If proper skills are provided then automatically employment generation will pick up. About 93 per cent of our workforce is in the unorganised space and this workforce should be trained and made into skilled labour.

***How will the Apprentice (Amendment) Bill work in this scenario? It sets the minimum age for becoming an apprentice at 14 years.***

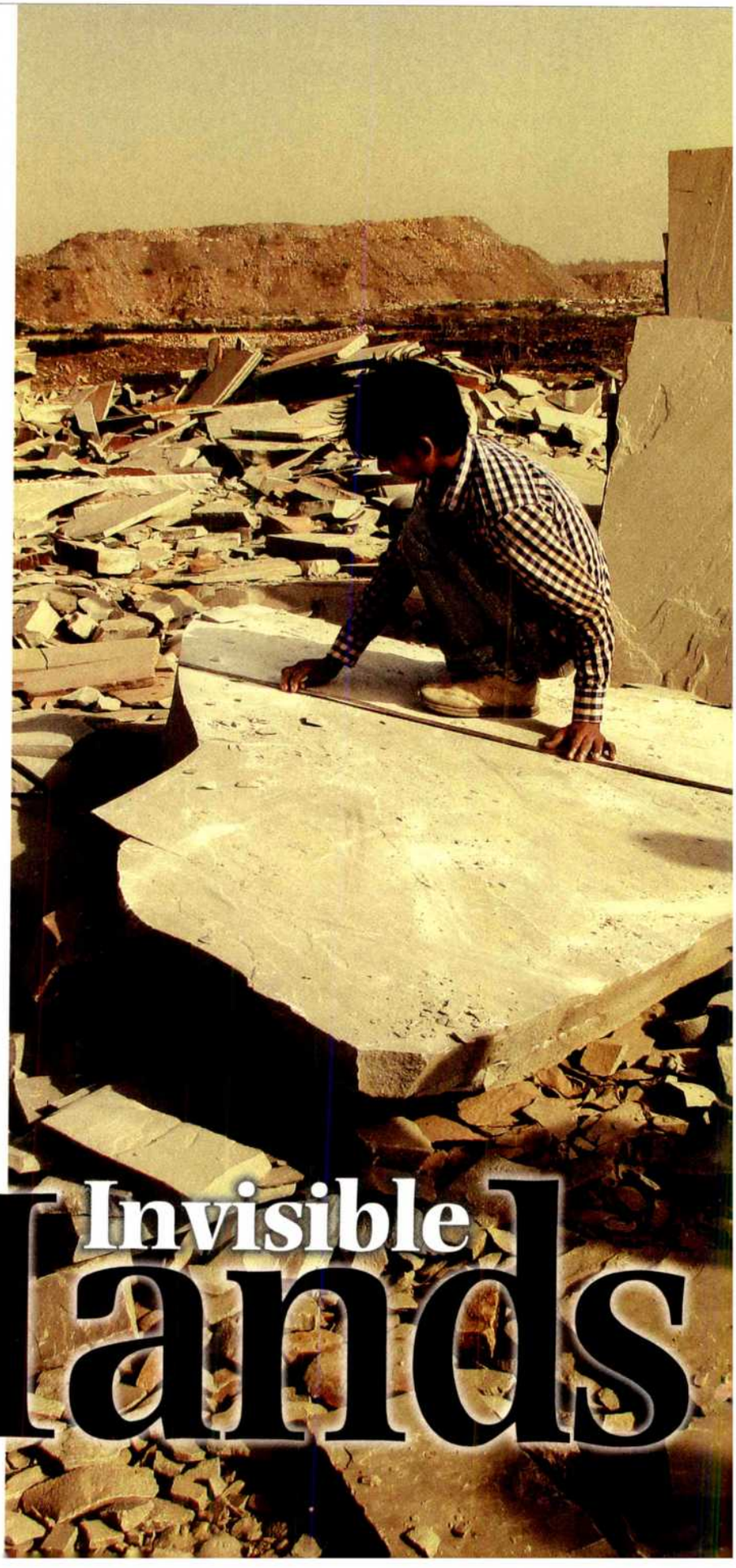
The Act sets the minimum age for being an apprentice at 14 years and the Bill adds that the minimum age of apprenticeship in hazardous industries will be 18 years. In the UPA (United Progressive Alliance) regime, 2.28 lakh people were trained under the Act. Now, we have made a provision that in the coming two years we will give training to up to 20 lakh people. We also have increased the stipend from ₹2,600 to ₹5,000. The MSMEs (micro, small and medium enterprises) will give 50 per cent stipend and we will give 50 per cent subsidy. The Apprentice Amendment Bill is a very big step. With this, a large number of trainees will join the workforce and they will be more responsive to the needs of the industry as they will get need-based training. ◆

@sarikamalhotra2

# Invisible Hands

**AN INVISIBLE WORKFORCE IS MAKING IN INDIA FOR THE WORLD. AN INSIDE ACCOUNT OF HOW CHILD LABOUR IS CONVENIENTLY KEPT UNDER WRAPS IN THE COUNTRY.**

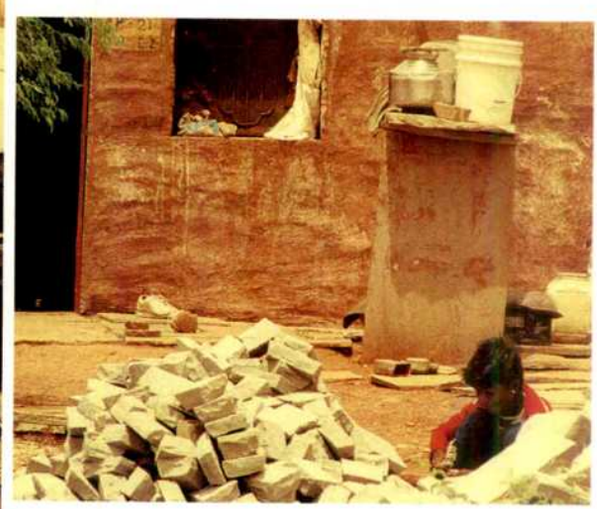
By SARIKA MALHOTRA



LOST CHILDHOOD: In Rajasthan, children make sandstone cobbles in the mining area and outside their homes. They are paid ₹2 for every piece

PHOTOGRAPHS BY SARIKA MALHOTRA

On the 40 km Bundi-Bhilwara stretch of National Highway 76, it seems like business as usual till a man in a yellow T-shirt arrives on a motorbike at an eatery stall near Patiyal village, Bundi district. On his instructions, a group of children, chiseling small sandstones on the side of the highway, scatter. Some sneak into the huts behind the rubble, while others grab a cola-bar at the stall. The children are immediately replaced by a handful of women who carry on with the same work. Soon, an Innova stops near the stall on the highway and an expat is taken around the site by a couple of men. The team spends around 10 minutes at the spot. The expat is accompanied back to the vehicle and, after a brief discussion with the men, is driven away. Within minutes of his leaving, the children emerge from the huts and resume their work.



**39%**

of India's population are children below 18. The country has the world's largest pool of children

There is a precision with which the entire sequence is staged, almost as if it is enacted on a regular basis. The expat is a journalist from Belgium. He is investigating whether ethically sourced sandstone from the region was used to rebuild two of the most strategic commercial landmarks – Korenmarkt and Emile Braun Square – in the historical centre of Ghent, Belgium. Also visiting the area is a team of international buyers from Belgium who fund projects and NGOs to make sure that they are working towards buying ethically sourced stones – it implies good working practices in the mines and quarries, minimum safety standards and, above all, no child labour. The sandstone importers from the region include leading companies from Europe that manufacture natural stone and landscaping products such as Beltrami, Brett, CED, DNS Stones, Hardscape, London Stone, Marshalls, Natural Paving and Pavestone, among others. Indeed, as per estimates, approximately 280,000 tonnes of Indian sandstone is shipped to the UK alone. At last count, there were at least 10 such active NGOs working on the 40-odd km belt.

The reason for the concern of these companies is evident. Take the case of Banjara *basti* at Parana Village, in Bundi district. The shanty town, without a grid connection, has some 70-odd households, with 150 children in the age

CHEAP LABOUR: Some 50,000 children are engaged in thread cutting of jeans in an East Delhi slum at 40 paisa per piece. This stage is the most important in the entire jean production chain before it can enter the market

group of four to 10 years and some 50 in the 11 to 14 bracket. No child goes to school, but they all know how to count and calculate. In fact, the *basti* has no school. The closest schools are in Dabi and Buddhpura – some five and seven kilometres away – or across the four-lane highway in Parana village. Five minutes to 8 a.m. and the entire *basti* gets going. The elders proceed towards the mines, 16 to18 year olds easily make their way into the mines for loading, clearing and unloading work and the younger children head towards the yards where they make cobble stones. Children start working in these yards from age of eight years and learn on the job. They work from 8 a.m. to 5 p.m. and are paid ₹2 per cobble stone by the quarry owners or contractors. The *basti* calls it a day at 8 p.m., as most adults and adolescents take to heavy drinking.

Indeed, as this example illustrates, child labour is still rampant in several sectors, particularly export-oriented industries (see *A Sorry Saga*). The Amendment Bill cleared by the Cabinet in May might not have enough teeth to check child labour, as most work is done in homes or home-based enterprises in disguise.

Take, for instance, sandstone quarries in Rajasthan. According to the Department of Mines and Geology, Udaipur, 70 per cent of India's sandstone production takes place in Rajasthan and in 2013/14 it earned the state exchequer more than ₹138 crore through mine leases and royalty. The industry employs 71,242 people, according to official estimates but the actual number of workers are much more.

A thriving cobble stone economy in the region is being largely fuelled by engaging children who make cobbles and small blocks from sandstone quarry waste. This waste is found in abundance in the region and is now bringing in substantial revenue to the quarry owners and cobble contractors. The quarry or mine owners either sell the waste to contractors, middlemen or engage contractors who get them processed at homes, which mostly involve children. These children do a good job of chiselling stones because of their flexible hands. Since 2004 demand from Europe is growing for cobble stones that are used to make pavements, driveways, gardens and as decorative stones.

Rana Sengupta, Managing Trustee and CEO, Mine Labour Protection Campaign, explains the dynamics. "Cobbles are strategically made either on the side of the highway, or outside the mines, or increasingly outside the homes of the workers or at the stock yards. As a result, the cobble worker is outside the purview of any law, be it the Mines Act or the Factories Act." Under the

## A SORRY SAGA

**One in every 10 workers in India is a child. Indeed, child labourers have a considerable stake in the country's GDP**

| | 5-14 YRS | 15-19 YRS | % OF TOTAL WORKFORCE |
|---|---|---|---|
| TOTAL WORKERS* | 126 | 324 | 11.18 |
| Cultivators | 42.7 | 94 | 10.74 |
| Agricultural labourers | 47.8 | 116 | 15.36 |
| Plantation, Livestock, Forestry, Fishing, Hunting & Allied Activities | 7.6 | 12 | 13.57 |
| Mining and Quarrying | 0.44 | 1.6 | 8.31 |
| Manufacturing (Household Industry) | 8.1 | 17.9 | 15.37 |
| Manufacturing (Non-household Industry) | 5.4 | 26.6 | 10.80 |
| Construction | 2 | 12.5 | 9.98 |
| Wholesale & Retail trade | 4.3 | 19 | 8.05 |
| Hotels & Restaurants | 0.7 | 2.4 | 10.47 |
| Financial Intermediation, Real Estate, Renting & Business Activities | 3.4 | 5.5 | 7.94 |

Figures in lakh (Census 2011) *Includes marginal workers

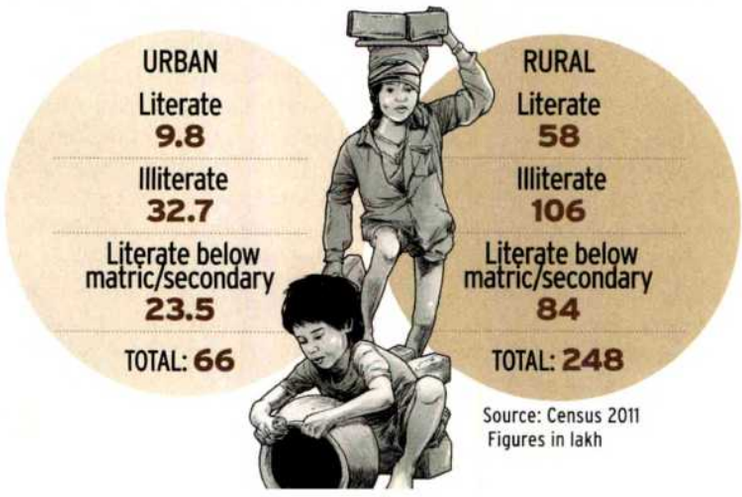
The Juvenile Justice Act, 2000 has pegged the age of children, in line with international conventions, at 18. We can no longer overlook the population of working children in the 15-18 age group. However, the Census only shows the breakup for the 15-19 bracket

Mines Act, any labourer below the age of 18 is not allowed near or in the mines since it is a hazardous activity. Often children as young as 14 make cobbles in the mining area. The Factories Act stipulates that basic basic safety standards have to be ensured and are subject to inspection. "Hence, in this belt approximately 1.5 lakh labourers work in this 100 per cent export industry without being registered anywhere as workers and yet contribute to this growing economy," says Sengupta.

The business matrix is simple. A labour is paid ₹2 for every cobble stone. If the mine owner is getting the work done through a contractor, he only plays for his commission and labour cost. One tonne cobble stones usually have 200 to 300 pieces of stones (depending on the size of the stone). The exporter sources the stones from vendors, middlemen and quarry owners and sells it to a big international buyer for €2,000 for a container (about €6.5 to €9 per square metre). This is sold in the overseas market at €18 per square metre. Now, given the margins involved, most big mine and quarry owners themselves have started exporting directly to the international companies. The cost benefit ratio of being in the business is apparent.

Mining and quarrying contributes almost two per cent to the country's GDP, and according to the 2011 Census 8.3 per cent of the total workforce in this sector are children. However, the actual number of child labourers seldom gets reflected. Mining is a state subject while mine labour is a central subject. There is no system to monitor the labour situation in mines and quarries. Sengupta explains that labour department officers are not just in charge of mining in a particular state. They also have the responsibility of labourers in all central govern-

## THE GRIM REALITY A majority of 15-19 year olds have not completed Class X education, so they enter the workforce early...




Source: Census 2011
Figures in lakh

### ... and the numbers could be much higher than estimated

- Children may be reported as school going but actually working as labourers or in farms
- Children may be registered in schools but working in family-owned cottage enterprises.
- CHILDLINE India Foundation estimates that child labour in the country would be close to three times the Census-reported figure

ment establishments in a state, such as Railways, Post and Telegraph, among others. "Moreover, one Labour Enforcement Officer (LEO) is in charge of four districts, which in Rajasthan would tantamount to about two lakh mine workers alone. Thus, it is humanly not possible to monitor the situation of mine and quarry labourers given this labour and LEO ratio." Interestingly, in the region, mine workers don't have any evidence of employment. This is despite the fact that they have been working for years in the mines, often under the same contractor or mine owner. What, then, can be expected of the work done in household units or yards?

While most mine owners say that no one under 18 is employed at the mines, there is possibly no way to gauge the exact age of labourers. Age proofs, including birth certificates, are hardly available in this segment, points out Kushal Singh, former Chairperson of the National Commission for Protection of Child Rights (NCPCR). "How many employers or contractors are asking for age proofs is questionable. In cases where some proof is available there is no authenticity of age mentioned on it." Quarry owners insist that they give work to contractors and pay them on the basis of per piece, and it is up to the contractor to get the work done.

## Piece by Piece

Cut to Kailash Nagar in East Delhi where some 50,000 children are engaged in thread cutting of jeans. They get 40 paisa per piece for thread cutting and 75 paisa for packing. These children don't work in any factory or production unit, neither do they go to fetch work. It arrives at their doorstep in lots. One lot usually has 25 pieces. The thread cutter fits well within their fingers. No one knows where these pieces arrive from. They are counted, distributed, paid for and supervised by a lady in the colony who makes 10 paisa per piece as handling charge. As no vehicle can enter the narrow lanes, the agent brings the consignment out of the colony in a rickshaw and gets them loaded in a tempo. This agent is a part of an intricate supply chain network in Delhi which is fragmented, predominantly export driven, specialising in apparel manufacturing and embellishment.

## WHAT THE LAW STATES

**CURRENT LAW: The Child Labour (Prohibition and Regulation) Act of 1986 prohibits engagement of children in some occupations and regulates the conditions of work of in others. It prohibits the employment of children below the age of 14 years in hazardous occupations**

**NEW BILL: The Child Labour (Prohibition And Regulation) Amendment Bill, 2012 has been cleared by the Cabinet. It is proposed to prohibit employment of children below the age of 14 years in all occupations and facilitate their enrolment in schools**

**However there are GREY AREAS in the proposed amendment. It allows children to help their family after school hours in the fields, home-based work and forest gathering**

Consulting firm Technopak estimates that in 2012 the Indian ready-made garment (RMG) industry produced nearly 13 per cent of the global output and was the sixth-largest exporter of garments in the world. Exports added up to $13.71 billion in 2011/12 and $14.94 billion in 2013/ 14. The biggest markets are the EU, US and UAE.

"In the past decade due to growing awareness and mandatory international compliances and certifications such as Social Accountability 8,000 Standard and the Worldwide Responsible Apparel Production Certification, child labour has declined in factories and production units," says a mid-sized Delhi exporter. However, it has substantially increased in home-based units (*addas*) and homes through piece work that is outsourced. Even as most processes in mid-sized export units are mechanised, finishing and value addition work is outsourced through contractors. These are essentially hand work, such as embroidery, embellishment, beading, stone pasting and thread cutting. Finishing and value addition is the most important part in the value chain. Even as outsourcing is a banned word in the exporter community, it's a given that it happens. A mid-sized Delhi exporter confirmed that at least 60 per cent units outsource the value addition and finishing work through contractors or fabricators who further outsource to sub-contractors. Another exporter pointed out that, given the compliance norms, no work can go out of the factory. It is almost impossible to prove that any work is outsourced from Tier-I and Tier-II units catering to big international buyers, he added.

However, studies corroborate the fact that work is increasingly being outsourced at different stages. A report by the Society for Labour and Development, New Delhi in February 2013 notes that the number of sub-contractors or fabricators in the Kapashera-Dundehera region in Haryana increased from less than five in 2000 to more than 90 by 2012.

Prabhat Kumar, National Manager, Child Protection at international NGO Save The Children, explains the dynamics. "Outsourced work is always given either to a legal entity or an adult, but it reaches the children within the family. Any kind of hand work on the garment that does not happen inside the factory has a high probability of involving

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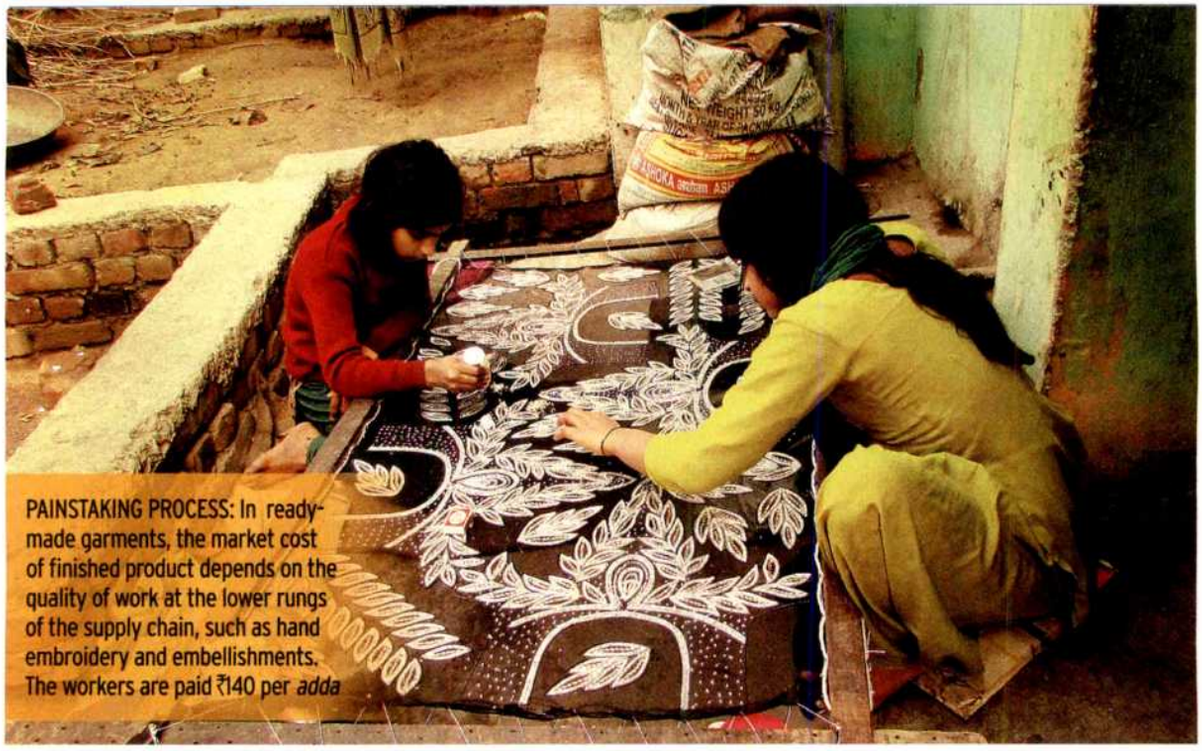

PAINSTAKING PROCESS: In ready-made garments, the market cost of finished product depends on the quality of work at the lower rungs of the supply chain, such as hand embroidery and embellishments. The workers are paid ₹140 per *adda*

children." Kumar says profit in the RMG industry depends on keeping manufacturing costs low and ensuring high volume of trade. "The longer the supply chain, the lesser the payment at every step. Also, the market cost of the finished product depends on the quality of work happening at the lower rungs of the supply chain, such as hand embroidery and being paid on piece rate."

Shanta Sinha, former chairman of NCPCR, says the piece rate is the worst form of exploitation, as the entire family, mostly children, get involved in production. "Since pieces are produced or finished in home-based units, workers remain unorganised, never come under the Factories Act, are not paid minimum wages, nor provided healthy work conditions or any social security. It makes the labour invisible, which can never make the transition from piece to hour work." Whether it is cobbles, readymade garments, bricks, bangles, handicraft, sports goods, gems and jewellery, majority of these activities are measured on units of work executed and payments are made on piece rates.

In fact, piece rates and child labour are completely for the benefit of the employer than for the poor family but it is always projected the other way, according to experts. Even for a semi-skilled or unskilled worker, an employer in Gurgaon would pay ₹5,500 as basic wage, in addition to 12 per cent provident fund, 1.75 per cent ESI (Employees' State Insurance Scheme), maternity leave of one month without pay and a bonus once a year, plus overtime. No wonder, then, this is where the equations turn in favour of piece rate work.

**70%**

of India's sandstone production happened in Rajasthan in 2013/14. But child labour is flourishing unabated in the industry

Then, there is the ecosystem of black money and labour market dynamics of adult labour. Kailash Satyarthi, Nobel Peace Prize winner and founder of the child rights NGO Bachpan Bachao Andolan, explains the matrix. "No employer shows that they are employing children. All employers in their books show that they are paying the required minimum wages to adults. Most of this money becomes black money. Manufacturers calculate their expenses in such a way that 30 to 60 per cent is shown as labour cost in overall production cost, and most of this money becomes black money," he says. This money seldom comes into circulation, remains untaxed and fuels a parallel black money economy. While there are no exact figures on the size of this black money economy, Satyarthi highlights the basic numbers. "On average there are 200 working days. India has six crore child labourers who work at an average cost of ₹15 per child per day, amounting to ₹18,000 crore in a year. If these six crore child labourers are substituted with six crore adult labourers, the dynamics will completely change as an adult labourer would make at least ₹115 a day, which would amount to ₹1,38,000 crore. This difference of ₹1,20,000

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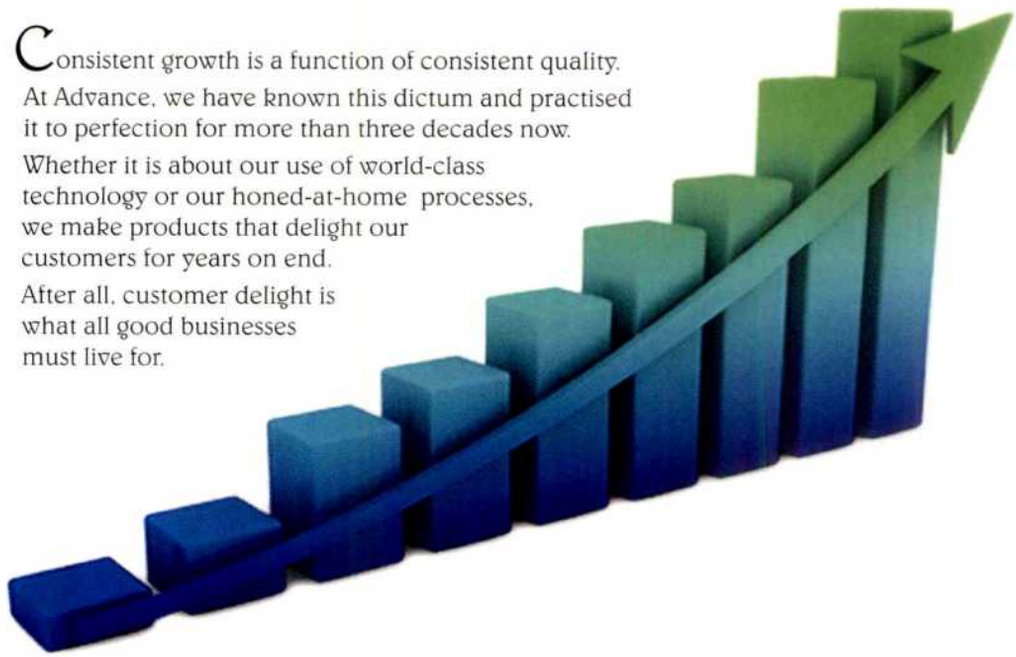

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EXPLOITATIVE SYSTEM: Children get between ₹10 and ₹ 30 a day for doing the most tedious jobs in the tobacco production chain

crore is black money." If child labour is replaced by adults and adults are paid the minimum daily wage, then there will be no need for children to work. As adults will be well compensated, their spending power will go up and it will give a fillip to the economy.

Bharti Sharma, former Chairperson of NCPCR, says manufacturers cut corners in a bid to remain competitive. "The matter remains tightlipped in the name of export promotion. If you talk to export promotion bodies all they will say is that they have an advisory and there is no child labour in the export value chain."

The Ministry of Labour maintains that child labour is declining in India. The ministry asserts that enforcement of Child Labour (Prohibition and Regulation) Act, 1986 is done by the state governments and the central government in their respective spheres. And there is provision in the Act to appoint 'inspectors' by the 'appropriate government' for the purpose of securing compliance. However, in New Delhi, the NCPCR, which was set up as a response to India being amongst the first few countries to ratify the United Nations Convention on the Rights of the Child, has a different story to tell. It has no team – with six members not appointed and Child Development Secretary V.S. Oberoi holding additional charge as NCPCR chairperson. Attempts to reach out to the NCPCR remained futile. The commission did not respond to repeated meeting requests and questionnaires.

## HOW THE STATES FARE

**The number of child labourers in different states**

| | 5-14 YRS | 15-19 YRS |
|---|---|---|
| Uttar Pradesh | 25.4 | 61 |
| Maharashtra | 7.8 | 27 |
| Bihar | 12.9 | 27.6 |
| Andhra Pradesh | 7.5 | 25.4 |
| Madhya Pradesh | 8 | 29.5 |
| Rajasthan | 9.6 | 30 |
| Gujarat | 5 | 19.9 |
| Karnataka | 4.5 | 19 |
| West Bengal | 7.1 | 30 |

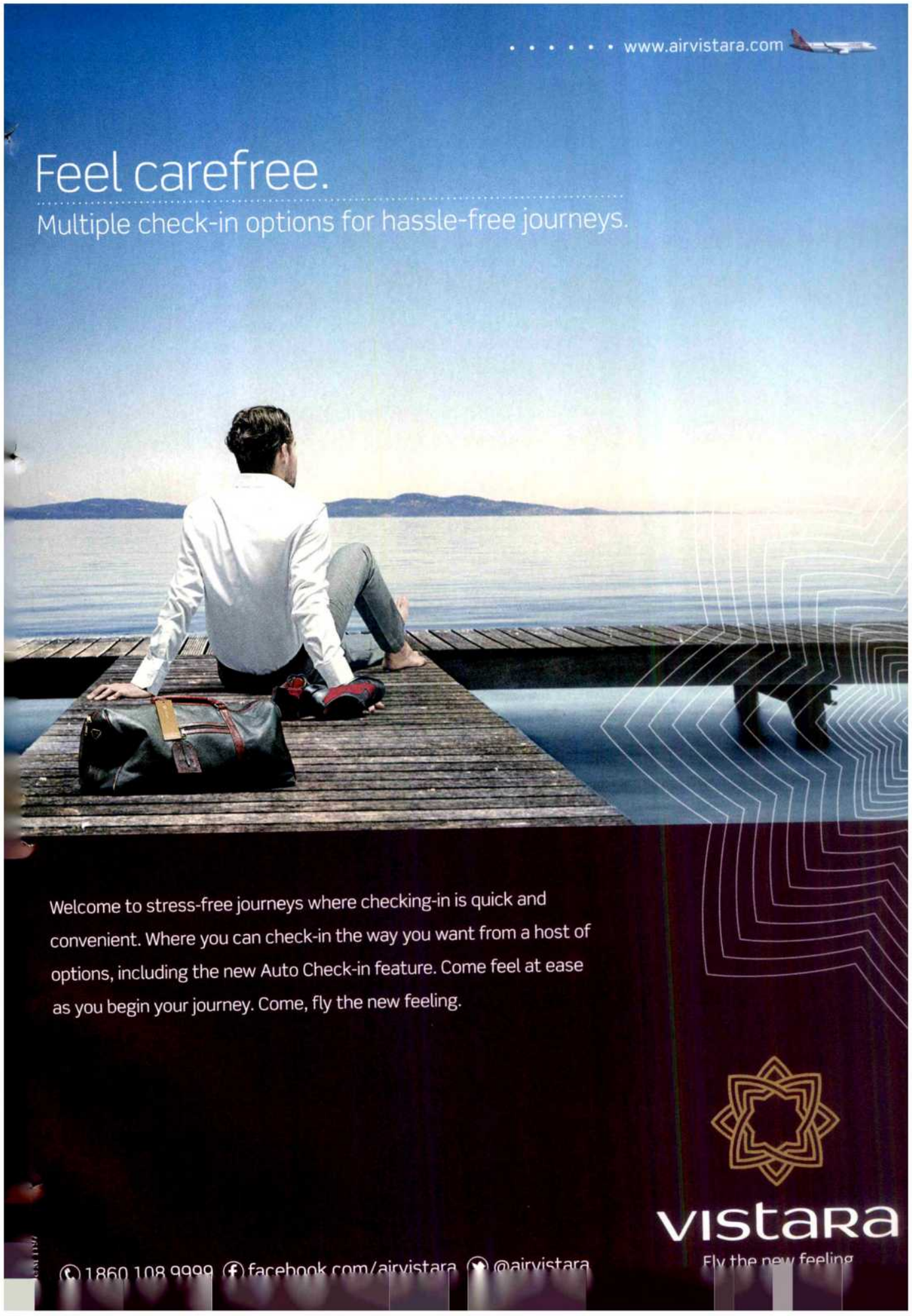
Figures in lakh (Census 2011); Includes marginal workers

### Shades of Grey

Observers feel that the current law, Child Labour (Prohibition and Regulation) Act, 1986, which prohibits the engagement of children in certain types of occupations and regulates the conditions of work in others, is outdated and should keep up with the times. The Labour (Prohibition and Regulation) Amendment Bill, 2012 was cleared by the Cabinet on May 13. The biggest grey area with respect to the amendment is that a child, after school hours, can help his family in fields, home-based work or forest gathering.

Majority of children fall under this category. Consider the example of agriculture and allied services that make for 14 per cent of India's GDP and engage maximum number of children. Enakshi Thukral, Co-Director, HAQ Centre for Child Rights, says that our attitude to the existence of child labour is indifferent and unless it is visibly hazardous we think it is normal and even find excuses for it.

Take the example of tobacco farming. Children get between ₹10 and ₹30 a day for doing the most tedious job in the tobacco production chain. Right from planting to the final stage of preparing the produce to be sent to manufacturing units, chil-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Interview with Kailash Satyarthi at
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dren are the preferred choice of contractors and marginal farmers.

In Bihar's Samastipur district alone, about 25,000 children are involved in the tobacco producing value chain, according to Dilip Kumar Giri, Vice President of the Bihar unit of Bachpan Bachao Andolan. "Most of these children are enrolled in schools and regularly attend school. The biggest attraction for them and their families is the mid-day meal. Free dress and scholarship for backward and extremely backward castes is also a big draw. Before going to the school and after coming back from the school they engage in tobacco production," he says. India is the third-largest producer of tobacco in the world after China and Brazil. Indeed, one of the biggest problems globally in the tobacco supply chain has been the use of child labour. Tobacco and tobacco products contribute about ₹20,000 crore to the exchequer by way of excise duty. India earned $833.42 million in 2011/12 and $1.01 billion in 2013/14 from tobacco exports.

According to the ICAR-Central Tobacco Research Institute, Andhra Pradesh, Bihar accounts for 0.20 lakh hectare of tobacco production in the country. Locals say that almost 70 per cent the economy of Samastipur, 60 per cent of Vaishali and 40 per cent of Muzaffarpur depends on tobacco. Pramod Kumar, *sarpanch* of Satanpur in Samastipur district, explains that most of the processes in production are outsourced and so it's the contractors who use child labour. This labour comes cheap. For example, a contractor pays ₹5,000 to children for clearing weeds in one-acre plantation but would have to shell out around ₹8,500 for adult labourers. Similarly, after harvesting is done by the adults, children are used by contractors to acquire the plants. Usually, a child is paid only ₹20 to ₹30 for the job while adults are paid ₹150 to ₹200. Going by thumb rule, one acre produces 10 quintals of tobacco. By using child labour on every acre, ₹20,000 is saved. Contractors and farmers insist that if they stop using child labour, their profits will shrink drastically, as all the cost is saved at the labour end only, be it at the farming stage or the processing stage.

**KAILASH SATYARTHI, Nobel Peace Prize Winner**

**"No employer shows that they are employing children. All employers in their books show that they are paying the required minimum wages to adults. Most of this money becomes black money"**

It's a given that cost of production and hence procurement will rise in many labour-intensive sectors without child workers. Davuluri Venkateswarlu, Director at Glocal Research and Consultancy Services, Hyderabad, did a study on the cost benefit of employing children vis-a-vis adult labour in hybrid cottonseed sector in Andhra Pradesh. To finance the total replacement of child labour in the cottonseed sector, at least a 12 per cent rise in procurement price is needed and a further eight per cent increase to meet wage inflation costs yearly – if wages are to be on a par with local market rates. If wages in the cottonseed sector are to be on a par with minimum government prescribed wages then a 37.7 per cent rise in procurement price is necessary.

In 2010, the US Ministry of Commerce reportedly wrote to the Indian government that the Obama administration was considering a ban on imports of granite and sandstone from India, as mines in Rajasthan were violating international labour standards. However, experts say child-labour-free cobbles is not a solution; it is a band-aid approach to a deeper issue.

"The buyers want to label the stone as ethically sourced without stipulating conditions to their Indian business counterparts. They should be ready to a pay a premium even if it means to cut down their profit marginally, to cobbles made legally and under proper work conditions," says Sengupta . Their insistence on ensuring child-labour-free products is only making the situation worse. "Today, the children are trained by their employees to deny that they make cobbles. Their parents are threatened to say that they have no debt, no health issues and their children go to school when the reality is the opposite."

Meanwhile, the civil society hails the Child Labour (Prohibition and Regulation) Amendment Bill as a step in the right direction. But whether things will change on the ground remains to be seen, considering the socio-economic realities in India. ◆

RESEARCH INPUTS BY NITI KIRAN

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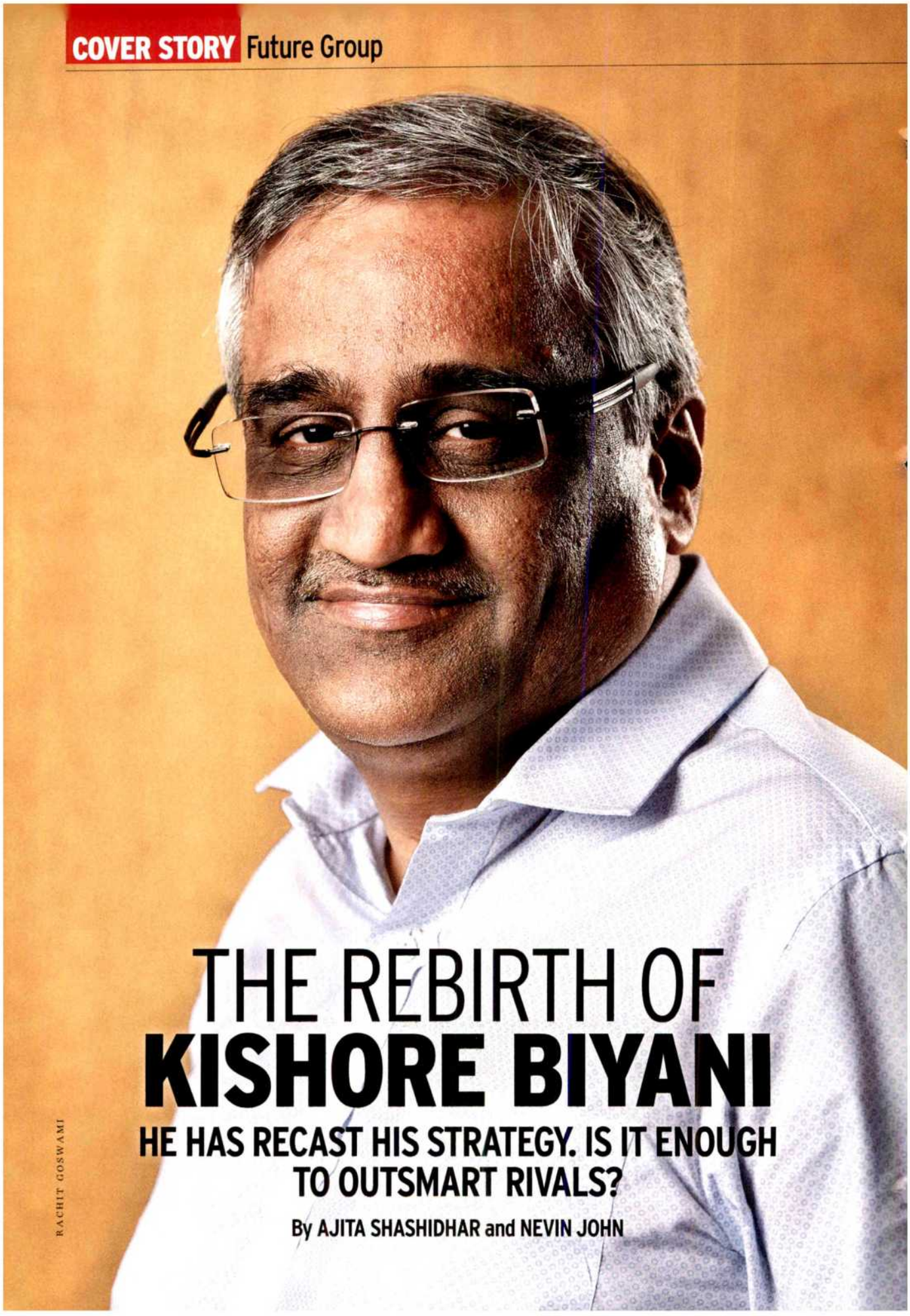


# THE REBIRTH OF KISHORE BIYANI

## HE HAS RECAST HIS STRATEGY. IS IT ENOUGH TO OUTSMART RIVALS?

By AJITA SHASHIDHAR and NEVIN JOHN

RACHIT GOSWAMI

A month and a half ago – on March 30 to be precise – Kishore Biyani gathered 1,000 of his senior employees at The Mariott in Hyderabad. He asked all of them to write down on a banana leaf what they saw as the future of the Future Group. In an emotionally charged – and somewhat theatrical – ceremony, he then sprinkled *Ganga jal*, brought all the way from Varanasi, on all of them. The gesture, he explained, was to mark the death of the old Future Group – and the birth of a new one.

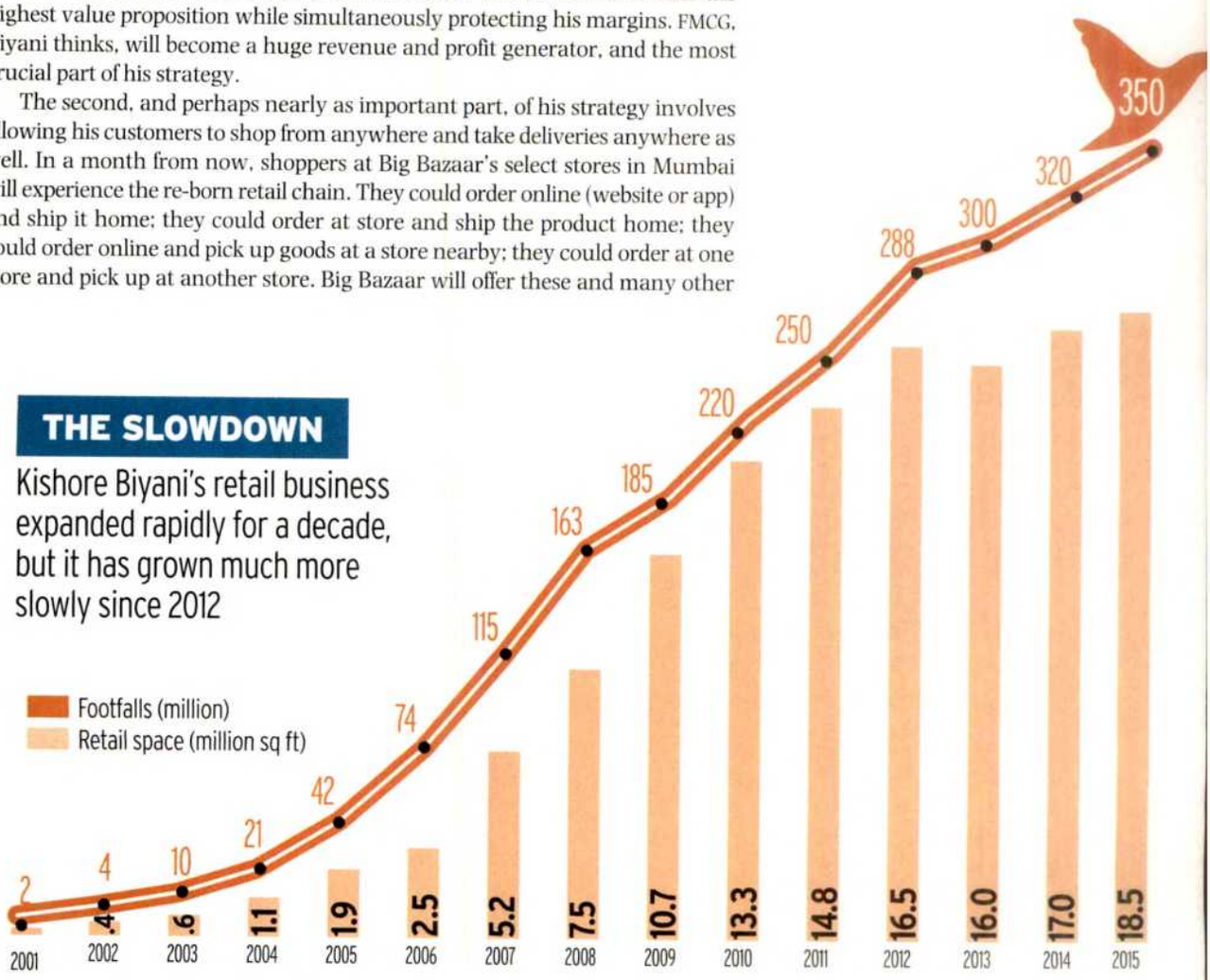
Biyani then took stage to make a presentation 'Re-born', drawing an analogy of the symbolic '*Ganga Snan*' to rebirth. To starting a new life after forgiving and forgetting. "The event was unbelievably emotional. But if we have to sell our own brands and build our own FMCG (fast-moving consumer goods) company, we have to think big," says Biyani, Group CEO of the ₹18,000-crore Future Group.

The reborn Future group is banking on two big breaks from the past to power ahead of all rivals. One, it will depend heavily on white-label FMCG, produced under Future Consumer Enterprises, to offer the cheapest and best groceries in his shops. While he will continue stocking FMCG products made by others like ITC and Hindustan Unilever (HUL), his own labels will allow him to offer the highest value proposition while simultaneously protecting his margins. FMCG, Biyani thinks, will become a huge revenue and profit generator, and the most crucial part of his strategy.

The second, and perhaps nearly as important part, of his strategy involves allowing his customers to shop from anywhere and take deliveries anywhere as well. In a month from now, shoppers at Big Bazaar's select stores in Mumbai will experience the re-born retail chain. They could order online (website or app) and ship it home; they could order at store and ship the product home; they could order online and pick up goods at a store nearby; they could order at one store and pick up at another store. Big Bazaar will offer these and many other

## THE SLOWDOWN

Kishore Biyani's retail business expanded rapidly for a decade, but it has grown much more slowly since 2012



permutations and combinations in its new avatar. The same will be gradually replicated in the other formats of the group like KB's Fairprice, Nilgiris and Easy Day.

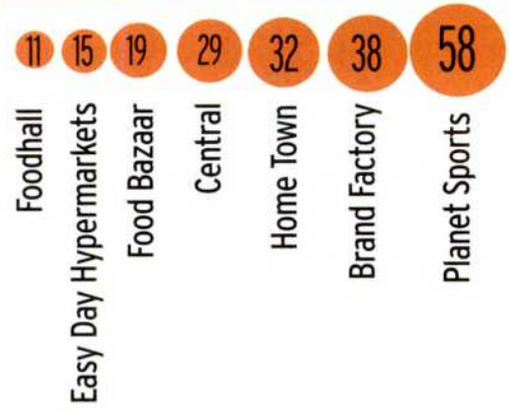
In the retail world, this strategy is popularly dubbed as omni-channel, though Biyani prefers to call it 'multi-channel'. Globally, omni-channel has emerged as THE big hope for beleaguered corporate retail chains against the brutal onslaught of e-tail, which has already captured up to 15 per cent – and rising – of the retail market in many parts of the world. Having made several half-hearted attempts at e-tail (*futurebazaar.com*, *BigBazaar.com* and Big Bazaar Direct, in addition to beta versions), and failed at almost all of them, Biyani is banking on this new strategy to counter e-tailers – his latest tormentors-in-chief – as well as rival retailers such as Reliance Retail, Aditya Birla Retail and Spencer's Retail.

Biyani, the pioneer of India's big retail, has been under attack from all quarters. First, in the mid-2000s, in the race to match the financial firepower of new entrants such as Reliance, Aditya Birla and Bharti-Walmart, Biyani borrowed up to ₹12,000 crore at one point to keep ahead of the pack. He had to pay the price for his adventurism when he needed to sell off his fashion business Pantaloon Retail and financial services business Future Capital to pay off part of his debt. And while he still continued growing after that, some of his deep pocketed rivals – especially Reliance Retail – have grown even faster. Also, the Aditya Birla Group is consolidating its retail business, especially the high-margin fashion business, a big chunk of which, ironically, was built by Biyani before he had to sell it off. Last month, it also acquired Jubilant's four hypermarkets in Bangalore for an undisclosed amount.

Meanwhile, after 2010, the meteoric rise of e-tailers such as Flipkart, Snapdeal, Amazon, among others, on the back of convenience and discounts is posing an enormous threat to the growth prospects of big, organised physical retailers. In 2014/15, e-tailers had collectively cornered $6 billion (₹38,167 crore) of the $40-billion organised retail market (excluding *kirana* stores).

Footfalls at most brick-and-mortar retailers, including the likes of Big Bazaar and Central, fell up to 12 per cent during the festival season in October-November, 2014. "The malls looked frighteningly desolate during this festival season," said Subrata Dutta, CEO, Fabindia, in an earlier interview with *Business Today*. While Future Group's own profit margin has been dwindling, India's fledgling e-tail business is estimated to grow from strength to strength from ₹22,270 crore ($3.5 billion) in 2014 to ₹38,167 crore ($6 billion) in 2015, according to Gartner. What is worrying retailers is that while they need to make money to remain in business, e-tailers can continue losing money to gain market share because they are backed by venture

**Adding up:** Number of stores in the Biyani stable after the Bharti Retail deal



PHOTOGRAPHS BY SHEKHAR GHOSH

"THERE WAS A COMPELLING CASE FOR THE MERGER GIVEN THE SCALE, COST AND SOURCING SYNERGIES ON OFFER"

**RAJAN MITTAL, Vice Chairman, Bharti Enterprises**

## BHARTI RETAIL: IN THE RED

| | JAN 2013- MAR 2014* | JAN 2012- DEC 2012 |
|---|---|---|
| Total Revenue | 2,353 | 1,582 |
| Total Expenses | 3,063 | 2,120 |
| Profit After Tax | -315 | -538 |

In ₹ crore; *The company changed its financial year to April-March; Source: Ministry of Corporate Affairs

Interview with Rajan Mittal at businesstoday.in/bharti-rajanmittal

capitalists with deep pockets.

Property consultant Knight Frank India and the Retailers Association of India say that by 2019, e-tail may be as large as organised retail. While e-tail's share is projected to rise from two per cent to 11 per cent of the Indian retail market, the latter's share could drop from 17 per cent to 13 per cent.

That sentiment reflects in their valuations, too. While India's biggest e-tailer Flipkart was valued at $11 billion (₹70,000 crore) in its last round of funding, India's biggest retailer Future Group's three listed companies are collectively valued at ₹8,000 crore only. Second-largest e-tailer Snapdeal, which is barely five years old and has the backing of marquee investors such as Ratan Tata and Azim Premji, is already valued at $1.85 billion (about ₹11,700 crore) and is now looking at raising funds at a valuation of $7 billion (about ₹44,000 crore).

As Biyani battles e-tailers on one hand, the rise of Reliance Retail poses yet another headache. Launched five years after Big Bazaar, Reliance Retail has grown organically to ₹17,640 crore in 2014/15, almost on a par with Biyani's Future Group.

So Biyani is egging on his group to grow to a retail business worth ₹60,000 crore (currently about ₹15,000 crore) by 2020, an FMCG business worth ₹10,000 crore (currently ₹1,500 crore) and a growth rate of 26 per cent year-on-year. He wants to increase the number of stores to 4,000 from the present 1,300 and a total retail space of 30 million sq.ft. He will need a one lakh strong workforce (at present 40,000) to manage the business. He has even hired 51 graduates from the Indian Institutes of Management and 300 designers for his fashion business.

Biyani says that when he opened his first store in Kolkata in 2001, India was learning to consume and a lot has changed since then. He says three big changes

## THE NUMBERS GAME

Financials of Future Group companies

### FUTURE RETAIL

| | JAN 13-MAR 2014* | JULY 2011-DEC 2012* |
|---|---|---|
| Total Revenue | 14,205 | 20,316 |
| Total Expenses | 14,131 | 20,223 |
| Depreciation | 452 | 632 |
| Interest | 726 | 1,647 |
| Profit After Tax | 80 | 276 |

Consolidated data in ₹ crore;
*The company changed its financial year

### FUTURE LIFESTYLE FASHIONS

| | 2013/14 | 2012/13 |
|---|---|---|
| Total Revenue | 3,076 | 0.2 |
| Total Expenses | 3,036 | 0.5 |
| Depreciation | 385 | - |
| Interest | 163 | - |
| Profit After Tax | 23 | -0.3 |

Standalone data in ₹ crore

### FUTURE CONSUMER ENTERPRISE

| | 2013/14 | 2012/13 |
|---|---|---|
| Total Income | 937 | 960 |
| Total Expenses | 908 | 978 |
| Depreciation | 39 | 37 |
| Interest | 5 | 17 |
| Profit After Tax | -15 | -77 |

Consolidated data in ₹ crore Source: Ace Equity

impact consumption in India – the rise of millenials (those who are born after 1982 and would account for more than half the population by 2025), increasing dependence on technology for consumption and the fact that India would be a $3-trillion economy by 2020 and 5.8 per cent of global consumer spending would happen in India as opposed to 2.6 per cent today. "For that we need to be reborn, have no baggage from the past, be it success or failure, we need to have new ideas to serve the customers of tomorrow and create a new relevance in the hearts and minds of customers," he says.

### The Great FMCG Push

In Biyani's target of ₹75,000 crore of revenue for the Future Group, which also includes other businesses such as insurance, FMCG is expected to contribute ₹10,000 crore. He is probably the first retailer in India who is looking at creating brands not just for his own stores, but is also planning to retail them outside of his stores. "The ambition of being a large FMCG company is right, especially since he owns the most complicated segment of an FMCG supply chain, which is retail outlets," says B.S. Nagesh, founder, Trust For Retailers and Retail Association of India. "However, executing his FMCG business outside his stores could pose an entirely different challenge."

Biyani's biggest USP, though, would be the food parks (essentially large food processing factories) that he is building himself. Rivals such as Reliance Retail and Spencer's too have major FMCG dreams but they have instead outsourced processing and manufacturing of foods to smaller firms. Biyani, however, believes that for

## THE BIG BRAWL

Biyani is still ahead in the physical retail space but he now has to contend with far more formidable rivals

### RELIANCE RETAIL

The retailer closing in on Biyani's heels is India Inc.'s top heavyweight - Mukesh Ambani of Reliance Industries. Reliance Retail, controlled by Ambani, has the scale - 2,621 stores in 200 cities - and the cash from parent RIL to sock it to the Future-Bharti combine. Reliance's strong areas: grocery, fashion, digital. Do we hear alarm bells ringing?

| NO. OF STORES | MILLION SQ. FT | FORMATS |
|---|---|---|
| 2,621 | 12.5 | Value, hypermarkets, digital, fashion, etc. |

### ADITYA BIRLA RETAIL

Though the group started slowly, Kumar Mangalam Birla is now consolidating and expanding his retail business. The group recently picked up Jubiliant's retail business for an undisclosed amount. Birla's food and grocery retail, which operates under the brandname "More" owns 483 supermarket stores and 16 hypermarkets.

| NO. OF STORES | MILLION SQ. FT | FORMATS |
|---|---|---|
| 2,371 | 7.1 | Fashion, supermarket, hypermarket |

Includes More, Madura Garments, Pantaloons, and Total Superstore formats

## SIZING UP THE COMPETITION

Performance of some of Biyani's main rivals

**RELIANCE RETAIL**

| | 2013/14 | 2012/13 |
|---|---|---|
| Revenue* | 12,694 | 9,126 |
| PBIDT | 652 | 145 |
| Profit After Tax | 272 | -135 |

In ₹ crore; *Net turnover Source: Ministry of Corporate Affairs

**SHOPPERS STOP**

| | 2013/14 | 2012/13 |
|---|---|---|
| Revenue | 2,873 | 2,394 |
| PBIDT | 186 | 160 |
| Profit After Tax | 37 | 39 |

In ₹ crore Source: MCA

## SHOPPERS STOP

The original retail biggie, Shoppers Stop is always a force to reckon with. The ₹4,000-crore lifestyle retailer, with 72 Shoppers Stop outlets and 14 HyperCity (hypermarket) stores competes with Future Group's Central and Big Bazaar formats. Only, Shoppers Stop clearly is more aspirational than Central, with its bridge-to-luxury positioning.

| NO. OF STORES | MILLION SQ. FT | FORMATS |
|---|---|---|
| 340 | 4.1 | Fashion & lifestyle, hypermarket, furniture & home décor, consumer brands, books, airport duty-free, games |

## GODREJ NATURE'S BASKET

Nature's Basket may be small, but it's got a leg-up on the others - it is the first retailer to have kicked off its omni-channel strategy. It retails premium food products, mostly international labels, plus frozen foods, cold cuts, cheese and wines. Its site Naturesbasket.com caters to Delhi and Mumbai, but it reaches 8,000 cities through Amazon and Snapdeal.

| NO. OF STORES | MILLION SQ. FT | FORMATS |
|---|---|---|
| 32 | 0.09 | Premium food & grocery |

## D-MART

D-Mart who? You'd be forgiven for asking that question, especially if you're not in Maharashtra or Gujarat. But 15-year-old D-Mart is actually amongst the most profitable retailers in India, largely because it owns most properties in which it operates. A topline of ₹4,699 crore isn't to be scoffed at either.

| NO. OF STORES | MILLION SQ. FT | FORMATS |
|---|---|---|
| 89 | 2.67- 3.12** | Supermarket, hypermarket |

**Estimates based on D-Mart's average store size of 30,000-35,000 sq ft.

product differentiation and consumer stickiness, investing in food parks is a must. Not to mention a few percentage points higher margins than his rivals. Initially, most of his FMCG brands will be produced at the ₹1,000-crore food park outside Bangalore. He is also planning to set up two more, one in central India and the other in the east.

Unlike other retailers, who have created private brands only for commodity-based products such as rice, flour and sugar, for some time, the Future Group has been focusing on brand-building: From the Tasty Treat range of biscuits, noodles and sauces to Sach personal care products, almost 25 to 30 per cent of Big Bazaar's revenue comes from its private labels. Rival Reliance earns 25 per cent and Spencer's 12 per cent from own FMCG brands. Harminder Sahni, MD of retail consultancy Wazir Advisors, believes this makes a lot of sense. "He has realised that brands will give him better margins (as high as even 40 per cent vis-a-vis the 10 to 14 per cent he makes by selling other brands)." "FMCG brands will be a huge differentiator," says Debashish Mukherjee, who leads the consumer industries and retail practice of A.T. Kearney in India.

But Biyani's FMCG vision is not restricted to earning 25 to 30 per cent margin, but to be in the league of HUL, Nestle and Britannia, aiming for margins as high as 40 per cent on premium offerings.

### ADITYA BIRLA RETAIL*

| | 2013/14 | 2012/13 |
|---|---|---|
| Revenue | 7,398 | 4,924 |
| PBIDT | 235 | 132 |
| Profit After Tax | NA | NA |

In ₹ crore; Source: Company and MCA

*Figures aggregate of Aditya Birla Retail, Madura Fashion & Lifestyle and Pantaloons Fashion & Retail; Madura PAT no available

### SPENCER'S RETAIL

| | 2013/14 | 2012/13 |
|---|---|---|
| Revenue | 1,460 | 1,347 |
| PBIDT | -70 | -78 |
| Profit After Tax | -166 | -209 |

In ₹ crore Source: Company and MCA

## THE CYBER WARRIORS

Biyani's other battlefront - an army of retail-flavoured code-jocks armed with insane funding

**FLIPKART** If anyone's got Future Retail running in loops, it's India's largest e-commerce company. Valued at $11 billion after raising $700 million in December, Flipkart shot to the top by offering heavy discounts. The Myntra buy has given it immense muscle in fashion. The offline-online face-off is closer than you think.

GMV* **$4 BILLION** | NO. OF ITEMS STOCKED **20 MILLION**

**SNAPDEAL** It's young, energetic, and ready to fly. Five-year-old Snapdeal is an online marketplace where more than 100,000 sellers hawk their wares and a new product is added every 10 seconds. The company is valued at $1.85 billion, courtesy a $627-million investment from Softbank, and is now looking at raising funds at a valuation of $7 billion. Core strength areas: electronics, fashion.

GMV* **$3 BILLION** | NO. OF ITEMS STOCKED **10 MILLION**

**AMAZON** Amazon is... well, Amazon. Market cap: $200 billion. World's second largest online retailer after China's Alibaba. And now founder Jeff Bezos has pulled out his bazookas for the Indian market, unveiling a $2-billion investment plan. Core strength areas: electronics, fashion. Now, where have we heard that before?

GMV* **$1 BILLION** | NO. OF ITEMS STOCKED **19 MILLION**

**THE OTHERS** Biyani's worries don't end with the three big guns. Lurking behind them are shrapnel speeding towards all his major segments. E-tailers eBay and Shopclues, furniture hawkers Urban Ladder and Pepperfry, grocery peddlers BigBasket and LocalBanya, fashion czars Myntra (owned by Flipkart) and Jabong... did we hear some more names?

*Gross merchandise value

In line with his mission of catering to the millennial consumers, he is rolling out a host of new-age products such as frozen snacks and vegetables under the brand names of Tasty Treat and Veg Affaire, respectively; 25 types of enriched flour under the brand name Desi Atta; Sandy's Kitchen, a brand of sauces and dips; and a range of personal care brands under the name of Think Skin. While Future Group already distributes and markets the Sunkist brand of juice in India, the plan is also to get into ice-creams. It also has a range of dairy and bakery products under Nilgiris. The company has set up an oats factory in Sri Lanka and would be soon launching its own brand of oats. "We are not looking at mass, it will be masstige and premium. We are not launching ordinary noodles where people are already there. We will not do simple biscuits, we will do cookies and something else. We need to have some competitive advantage."

Biyani says his food and FMCG business will be similar to that of ITC Foods. "We are trying to do virtually the same as ITC. They are into flour, biscuits, juices and snacks. We are into dairy and bakery, which they are not into."

If Biyani is looking at FMCG brands to spur his next phase of growth, Sahni of Wazir Advisors is surprised why he hasn't been as active with Big Bazaar Direct (his assisted commerce platform where he has signed up with *kirana* stores to sell Big Bazaar, *FBB* and E-Zone merchandise), which he announced with a lot of pomp and show early last year. "Creating an offline store network is a great idea. This would be a great platform to sell his own brands and keep FMCG competition at bay."

In fact, Big Bazaar Direct was Biyani's maiden initiative post the sale of Pantaloon in 2012. Biyani claims that it reports a business of ₹25-30 lakh a day, with a network of 600-700 franchisees in Rajasthan and parts of Maharashtra. However, Big Bazaar Direct, he says, is still a work in progress. "Our dream is to have franchisee-assisted commerce in every pin code area in India. We sell 150,000 SKUs (stock keeping units),

once we are able to create a master data on that and layer it up, then we want to have agents in every pin code area. What is taking time is to list 150,000 products and create that eco-system of master data management. Once we are ready, the whole thing becomes much easier."

In 2014, Biyani even tied up with Amazon to sell his privately-owned apparel brands through Amazon India. He plans to extend it to other categories. "The partnership with Amazon, which obsesses about being the earth's most customer-centric company, will enable us to leverage their strengths, investments, and innovations in technology to reach out to a wider set of consumers across India," Biyani said in a statement.

Arvind Singhal, Chairman, Technopak Advisors, says pulling off a consumer brands business will be a huge challenge. "However, in the recent past a lot of new brands like Paper Boat (juices), Fogg (deos) and Cremica Foods have done a decent job of fighting competition from seasoned players. Biyani will have a fair chance if he gets his branding, packaging and pricing strategies right," says Singhal.

Biyani admits that his FMCG focus will be an acid test. "The consumer has to accept our product. The execution has to be top-class. Product quality has to be impeccable. We have to get everything right like the Friday release of a movie. In the consumer goods business, nothing will work if you are at fault."

He also admits that he doesn't have the experience of consumer goods companies in the country in terms of product development, but he hopes to plug this gap by partnering with experts in various fields. "We don't know everything. So we will have to get into JVs. We have taken technological knowhow from Swiss company Buhler, the largest technology provider in food processing."

SHEKHAR GHOSH

**"BIYANI HAS REALISED THAT RETAIL HAS LITTLE ROLE TO PLAY AND IT IS BRANDS THAT WILL GIVE HIM BETTER MARGINS"**

**HARMINDER SAHNI, MD, Wazir Advisors**

## The Promise of Omni-channel

Of late, whenever Biyani attends a corporate gathering or even travels in an airplane, the most obvious question he is asked by the person sitting next to him is about the future of e-commerce in India. "My standard reply is that they occupy mind space, but it is multi-channel which will do more than pure online."

Omni-channel – big retail's own answer to e-tail – has been conceived around the idea of leveraging the strengths of brick-and-mortar retailers and their assets on the ground as well as the weaknesses of e-tailers, who not so long ago appeared completely invincible.

The most obvious advantage for Biyani is distribution. He already has 188 Big Bazaar stores, 19 Food Bazaars, 11 Foodhalls and 125 KB's Fairprice shops in addition to 150 Nilgiris stores, 188 Easy Day supermarkets and 15 Easy Day hypermarkets, where he can retail all his FMCG products. But for a retailer to pull off a consumer brands business will never be a cakewalk. Biyani says that he is spending ₹100 crore initially and building the omni-channel mindset in his organisation. Once it's done, he hopes at least 10 per cent of his retail revenue will come from omni-channel. "If you order from Mumbai and you live in Bandra, our nearest store will deliver to you. You can order through an app, mobile phone, web, whichever way you want. We will start with one-hour delivery and then come to 30-minute delivery."

If he is able to offer between 30,000 and 40,000 items at his biggest stores to the consumer today, omni-channel

# CASHING OUT

## Biyani has exited a few businesses over the past few years

**MAY 2012**
Sold Pantaloon to Aditya Birla Retail for ₹1,600 crore

**JUNE 2012**
Sold Future Capital to Warbug Pincus for ₹450 crore

**NOVEMBER 2013**
Divested 38% stake in apparel brand Biba and 35% stake in AND Clothing, together for ₹450 crore

**DECEMBER 2013**
Divested 45% stake in Capital Foods for ₹180 crore

will allow him to offer his entire inventory of 1.5 lakh items at all his 1,300 stores to the consumer at any point in time. Home Depot, for instance, offers more than five lakh products on its omni-channel platform as against just 35,000 units at a store.

The biggest difference that his omni-channel model would have from a pure-play e-commerce company is that his stores would act as his warehouse, unlike e-commerce companies that have to invest in warehouses to cater to multiple locations. "We have 27 locations in Mumbai and they can become 27 warehouses," he explains. But half hour delivery may only work when the customer and the store stocking the product are at the same location. Where they are in different cities, it may not be possible and may take as long to reach a customer as an e-tailer does.

As far as reach goes, e-tail has deeper reach: Flipkart, Snapdeal and Amazon deliver to thousands of PIN codes in India, including smaller towns. And Future's omni-channel will have to at least match that to be competitive.

But simple as it may sound, omni-channel retail is not just another moniker. It's a way of life – a completely different architecture of retail. Several global and domestic retailers have multiple channels but typically they all function in silos. The moment such silos are connected, they become omni-channel. It's easier said than done, though.

After all, the omni-channel strategy throws the organisation into a vortex of permutations and combinations. It requires significant inter-departmental cooperation, right from supply chain management, suppliers, stores and merchandising as well as logistics and technology.

But when it works, it's nothing short of magic. Walmart generates $8-$9 billion of its $486 billion revenue from omni-channel. For Tesco, nearly 8-10 per cent of business comes from omni-channel. In Australia, omni-channel retailers such as Woolworths, Coles, David Jones and Myer account for half of the e-tail market and are growing nearly as fast as any e-tail firm.

One of the biggest draws of omni-channel is instant gratification through store pick-ups. Nearly 50 per cent of Best Buy's online buyers prefer to pick up from stores they choose. From the money it saves in shipping, Best Buy even throws in a surprise when such customers arrive for the pick-up, giving them free batteries, possibly a memory card or a pack of soaps, etc.

It's something that's forced rival Amazon.com to match tactic for tactic. First, it launched same-day delivery pilots in multiple cities. Then, under the Amazon Locker programme, customers can ship their online orders to be picked up from a 7-11 or a Staples store nearby. Interestingly, the 157-year-old Macy's has now redefined itself as "...one of the nation's premier omni-channel retailers".

But why is it so hard to master? Because it requires greater predictability through use of Big Data and analytics. But most importantly, the algorithm must be robust enough to make sure the company makes a profit in the end because omni-channel supplies will play havoc with the landed cost of the product at the customer's doorstep, or when it's handed over to him. Macy's, for instance, kicked off omni-

## BUILDING AN FMCG FOOTPRINT

Brands in the pipeline

Veg Affaire – Frozen Vegetables
Tasty Treat – Frozen Snacks
Desi Atta – 26 different kinds of flour

channel implementation as far back as 2009. But by the end of 2013, it had only managed to put about 500 of its 850 stores fulfilling online orders.

"Just because multi-channel hasn't started in India, people think the pure-play online retailers are the only ones who are going to do this business. They don't have any products, they don't have brands, they don't have their supply chain, so how will they work? It's a very expensive model. I have my own brands, products, supply chain, data base. What else do I want?"

He believes that he is best poised to serve his customers both though his physical stores as well as online. Govind Shrikhande, MD, Shoppers Stop, agrees with Biyani that physical retailers have an edge over pure-play online retailers. "A pure online player can never be an omni-channel retailer as they don't have a physical presence. A customer can go into a physical store, shop the physical store merchandise, and they can also use a kiosk or an iPad within the store to order online in the store, get it delivered in the same store next day or get it delivered to their home or any other place."

According to Singhal of Technopak, with global retailers such as Macy's and Sainsbury making a success of omni-channel, there is no reason why Biyani's omni-channel plunge will not work. Nevertheless, he has his doubts whether it will do well in the supermarket business, which comprises a bulk of Biyani's business. "With India being a country of diverse tastes and preferences, most Big Bazaar stores cater to the local needs of a people of a certain geography. If a consumer living in Shillong will want to buy a food product which is not available in the store close to her home, reaching it to her may become a challenge."

But does that mean that e-grocers such as Local Banya or Big Basket will have an advantage over Big Bazaar? Certainly not, says Singhal. "The biggest cost of most e-grocers is supply chain and logistics and Future has a clear edge thanks to Future Supply Chain." Big Bazaar, says Singhal, also has the advantage of having its own brands, and the e-grocers in order to succeed have to invest in backward integration such as working with farmers and creating their own private labels.

## Past Life

It's not just Big Bazaar that is re-born. Biyani says he himself is a person different from his past life. "Earlier I was focused on growth and doing new things all the time. Now I am doing 10 days of rigorous review of businesses in a month. Allocation of capital and resources has become the new priority. We will not sign for any new store if we don't see profitability at each store. It was not the same case earlier. Now, the return on capital employed is important. So my role has changed big time."

Another change is that Biyani recruits more women in the organisation for gender diversity. He already has his two daughters – Ashni (head of Future Ideas, the innovation and incubation cell) and Avni (head of Food Hall) – ready for taking over bigger roles in the group.

Biyani considers these his learnings from past mistakes. When he began in 2000, his mantra was to have a share

**"THE AMBITION OF BEING A LARGE FMCG COMPANY IS RIGHT... BUT EXECUTING HIS FMCG BUSINESS OUTSIDE HIS STORES COULD POSE AN ENTIRELY DIFFERENT CHALLENGE"**

**B.S. NAGESH, Founder, Trust for Retailers and Retail Association of India**

of Indian consumer's wallet in every possible way. So right from restaurants, beauty salons and gyms to consumer finance, Biyani made sure he had a presence everywhere. He also tried his luck in film production. However, with debts piling up, he slowly got rid of all these businesses, and focused on three verticals – food, fashion and home. While the food business is a work in progress and the next few months will see a slew of new brands being launched, fashion under FBB is available at 240 selling points, and as many as 11 crore garments would be sold this year. In five years' time Biyani expects to sell 50 crore garments.

Biyani looks much calmer and under control of things today, from what he was in 2010-2011, angry and agitated. He often responded in monosyllables whenever he was quizzed about his ₹12,000-crore debt. Four years down the line, he has sold Pantaloon to Aditya Birla Retail and has exited from Future Capital. With the exit from financial services business, the ₹4,000-crore loan book, which is counted as debt, has been taken away from the group's debt. The debt now stands at ₹4,500 crore.

"BIYANI WILL HAVE A FAIR CHANCE IF HE GETS HIS BRANDING, PACKAGING AND PRICING STRATEGIES RIGHT"

**ARVIND SINGHAL, MD, Technopak**

VIVAN MEHRA

Biyani says he has well past the debt pain and doesn't need incremental capital to grow. "Pure retail companies have ₹12,000 crore of debt with ₹1,000 crore EBITDA. We have moved past that era. We have not expanded less than a million square feet any year till date. So, where has there been a problem? Even during the financial crisis we were growing by not less than one million sq.ft. per year."

He claims that it was during the financial crisis that he created FBB and redesigned – code named KB 2.0 – his entire business. "We thought that to survive in the business, we have to convert ourselves into a value departmental store. Selling grocery alone will not take us to where we want to be. We took a big bet, and the bet was fashion. We changed the look and feel of each and every store, and that has paid off."

## Courting Bharti Retail

Future Group's acquisition of Bharti Retail in an all-stock deal values the latter at ₹500 crore in equity after adjusting for accumulated losses of ₹1,800 crore. The Mittals will get a nine per cent stake each in the BSE-listed Future Retail and Future Enterprises. In addition, Bharti Enterprises will also receive ₹250 crore worth of milestone-linked convertible debentures, which can be converted into equity in future, eventually taking the Mittals' stake in both the entities to about 15 per cent. They will get a board seat in Future Retail as well.

Future's merger with Bharti Retail, says Biyani, is in sync with his ambition to expand his business. It has made him stronger in northern markets where Bharti was largely present. With this deal along with the acquisition of the south-focused retail chain, Nilgiris, which they acquired last year, Future has a presence in 244 cities.

Prior to the signing of the Bharti deal, the buzz was Mittals were looking at exiting the business after Bharti ended its relationship with Walmart in 2013. However, Rajan Bharti Mittal, Vice Chairman, Bharti Enterprises, says he has always been bullish about organised retail in India. "For Bharti, it was an opportunity to be part of a larger, national scale retail business and build a world-class retail chain out of India. There was a compelling case for the merger given the scale, cost and sourcing synergies that were on offer. In addition, geographically and in terms of formats, both businesses complemented

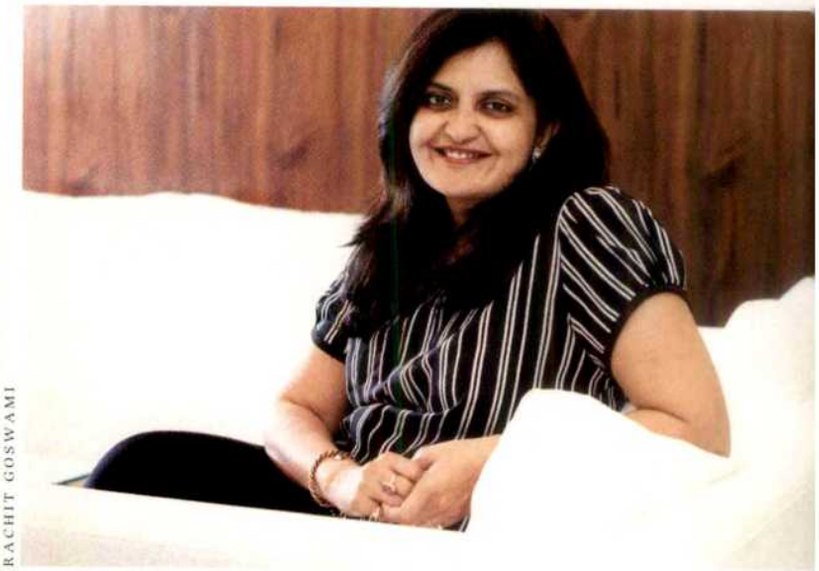
## "BIYANI HAS NEVER DEFAULTED AND ALL THE BANKS WILL SWEAR BY HIM. HE GOT RID OF HIS DEBT IN A VALUE ACCRETIVE WAY"

**BALA DESHPANDE, Senior Managing Director, New Enterprise Associates**

each other well," he says.

Bharti has multiple businesses like Del Monte, their agri business, telecom and data business, which are quite synergistic, says Biyani. "There are multiple opportunities that exist. Whether we have thought about something, I would say no."

Mukesh Ambani's Reliance Retail has already found the synergy with Reliance Jio, the yet-to-be launched broadband business, in finance, human resources, customer care, and sales and distribution. In Biyani's case, the departmental synergy will not be practical since Bharti and Future Group are independent firms.



RACHIT GOSWAMI

Bharti Airtel has 226 million subscribers in India (as of March 2015) that Biyani looks to tap, in addition to capital for expansion. "It will be difficult to find synergies between the two independent entities. Biyani would be looking for the capital for expansion from the co-promoters, Mittals," says an executive with Reliance Retail.

Analysts think that Biyani's recent deals are a masterstroke. "Future Group is clearly emerging as one of the leading retailers in India on the back of its acquisitions," says Rajat Wahi, Partner and Head (Retail), KPMG India.

Bala Deshpande of New Enterprise Associates expects more such consolidations happening in organised retail. "India Inc is going to see consolidation for convergence and capital efficiency. Bharti and Future complement well in terms of footprint and consumer efficiency. As the GDP grows and companies' healthy balance sheets become healthier, one will see more acquisitions happening."

While the advantages of the Bharti deal are yet to unfold, Biyani claims Nilgiris is one of his finest buys till date, for which he paid ₹300 crore. For a north-based company to make inroads into the south is not an easy task. "We now have a 105-year-old brand with strong customer base in dairy and bakery. People are ready to pay 10 per cent premium for Nilgiris products," says Biyani. "We believe the power of compounding comes into play now. In five years' time we can grow exponentially," he adds.

### The Discounts Menace

A bulk of the e-tailing today happens on the back of discounts, and Biyani is clear that he doesn't want to get into the discounting trap. In fact, the biggest disadvantage a brick and mortar retailer wanting to go online would face is price arbitrage, says Nandini Chopra, MD of consultancy Alvarez and Marsel. "If there is a dress that is hanging for ₹1,000, a physical retailer can't deep-discount the same product on his website because if he does so, he at once kills his brick-and-mortar business. The online retailer is using private equity money to pay such huge discounts to fund it. The big funds are paying to fund my clothes. A brick-and-mortar retailer doesn't have that luxury."

In order to tackle the deep discounts offered by most online players, he has also created a 'price match' mobile application, which will be launched in the next 30 days. "If anybody sells cheaper than us, the additional price charged for the product will be credited back to customer's account. The consumer will get an SMS saying the amount has been credited."

But won't that hurt margins further? "It's all calculated. The price perception will change. I am guaranteeing that your prices will be lower. Now it's competition who should be worried," explains Biyani.

Biyani is optimistic about the success of his omni-channel plunge, and is even more excited about his FMCG business. "We have shown the guts to get into dairy, bakery and juices. Indians believe that only HULs, P&Gs and ITCs can do it. People are not taking us seriously and that's good for us, as we have a point to prove."◆

*@ajitashashidhar; @nevinjl*

# "NOBODY BUYS EVERYTHING ONLINE"

**Kishore Biyani**, *CEO, Future Group, tells* ***Nevin John*** *and* ***Ajita Shashidhar*** *that multi-channel retailing is the future. Excerpts from the interview:*

RACHIT GOSWAMI

***Apart from the stores you will add with the Bharti deal, what are the other synergies?***

Bharti has many businesses that are synergistic with ours, Del Monte being one. They also have agri, telecom and data businesses. There are multiple opportunities. If you ask whether we have thought about something, I would say no, though we have already started working with Del Monte.

***How will the telecom business be useful?***

If MVNOs (mobile virtual network operators, which do not have to own the network to offer services) are allowed, there can be opportunities to work with telecom players. We already have a service called T24 that offers free talk time to loyal customers. It has 46 lakh subscribers.

***What is your strategy for the next five years?***

We have multiple platforms. We have a supply network across India. We have a manufacturing base. We have 21 million customers, and products and brands in fashion, food and home segments. So, we have a base on which technology can be added, multi-channel can be added, reach can be added and acquisitions can be added. In five years we can grow exponentially.

***What growth targets have you set for yourself?***

We have high internal targets. If we grow at 26 per cent (a year) from where we are, I think we will touch ₹75,000 crore by 2021. In terms of square feet, we would be close to 30 million. Now, we are at 18.5 million.

***With this acquisition, you are now again the biggest retailer...***

We never claimed to be the biggest retailer. It is a race with consumers. It has nothing to do with other businesses. Everybody has his own business model, everybody works in different geographies. So, there is no race as such.

***But aren't the dynamics today much different? Now, you also have online retailers to deal with.***

The competitive intensity is far lower now. I don't know if my consumers are buying online and not coming to me. We have not felt it yet. If somebody is buying online, it must be a one-off purchase. Nobody buys everything online. Probably 60 to 70 per cent online business is from three-four cities. We operate in 244 cities. I don't know if there is a comparison at all.

***You don't see e-tailers as competition?***

Technology-enabled commerce is going to be there, but we have the brands, we have the products, we have the supply chain, we have the stores, and we will add technology to them. We will be more suitable to do that business than anybody else in a much more profitable way.

Even worldwide, multi-channel retailing is big, not pure online. Just because multi-channel hasn't started people think they are the only ones who are going to do this business. They don't have the products, they don't have

Watch interview with Kishore Biyani at businesstoday.in/futuregroup-biyani

the brands, they don't have the supply chains. So, how will they work? It's a very expensive model. I have my own brands, products, supply chain, data base.

***What about technology?***

That is available off the shelf. It's more about preparing your organisation to deal with it.

***E-tailers have a higher valuation than physical retailers. Is it not a disadvantage?***

It's good to have high valuations. They should enjoy it. It doesn't matter. It is the job of the investor to give valuations. Our job is to do things we are good at.

***How has Big Bazaar Direct performed?***

It does a business of ₹25-30 lakh a day. We only have 600-700 franchisees. We are in Rajasthan and parts of Maharashtra. Our dream is to have franchise-assisted commerce in every pin code area.

***What are your FMCG plans?***

We will launch an oats brand. We want to be big in flour. We are launching close to 25 new varieties, which will go up to 100. We are about to launch frozen food. We are getting into personal hygiene. We are launching a brand for sauces and dips. We are looking at personal care, home care, food, staples and multiple categories. We have a wafer biscuit factory. We are getting into ice creams, we are already into dairy, bakery and juices. If you map what ITC has, we are trying to do virtually the same. The food business should be ₹10,000 crore this year.

***What is your vision?***

My vision is to serve as many customers as possible. We want to build our own brands in food, fashion and home.

***Won't it be a challenge to get into FMCG segments where there is stiff competition?***

We are not getting into areas where there is clutter. There are not many people in oats. In flour, there are many players, but none has 100 varieties. Our ketchup unit will make 25 types of sauces. We have an arm which looks at consumption trends. We plan to build an entire product line on the basis of that. We are not launching ordinary noodles or simple biscuits.

***How are you going to manage capital?***

We have already gone through that pain. Now, we don't need incremental capital to grow. I don't understand where the challenge of debt is. There was no challenge of debt anytime. There have been words which have been created – debt-laden, debt-ridden, cash-strapped – they are all just words. Pure retail companies have ₹12,000 crore debt with ₹1,000 crore EBITDA. We have moved past that.

We have not expanded less than a million square feet any year till date, not even during the financial crisis. We thought that to survive we have to convert ourselves into a value departmental store. Selling only grocery will not take us where we want to go. We took a big bet, and that bet was fashion.

***What about real estate costs?***

Once the omni-channel model starts, we will be able to deliver more. Once that happens, the benefits will be huge. If we are able to do 25 per cent deliveries from our stores, the benefits will be huge.

***So, it will be full utilisation of real estate...***

I think the world has moved towards it. Almost $8-9 billion of Walmart's business comes from omni-channel. Almost 8-10 per cent of Tesco's business comes from omni-channel. The only capability pure online has is technology. If you don't have your own product, how will you compete? We have a large physical business. Our buying strength is phenomenal, our sourcing strength is high, there is a cost of business that has happened. This is adding a layer to it.

.

***What is the crediting back discount plan?***

We have a Future Group wallet for loyal customers. We are creating a price match application in the next 30 days. If anybody sells cheaper than us, the price difference will be credited to the customer's account. The customer will not have to track prices. A third party will do that.

***Will that hurt margins?***

It's been calculated. The price perception will change. I am guaranteeing that our prices will be lower. Now, the other person should be worried.

***E-commerce players always sell products at a discount. How will you match prices?***

We are trying to catch up in the grocery business, where prices are comparable. If someone sells branded products – Colgate, Lays – at a lower price, we will match it. I can't compare non-branded shirts or similar items. ◆

*@ajitashashidhar; @nevinjl*

# Services: Key Engine

## Transforming India into a Global Economi

**Narendra Modi**
Hon'ble Prime Minister

"What does India not have to offer to the world's service needs? India has the power to attract the whole world's service sector. India can become a hub for global arbitration. There is a need to map human resources talent and develop dominant skill. IT can join people with goverments, bridge the gap between demand and supply, and can bring us closer to knowledge...The challenge is to integrate indigenous trade with the global order by enhancing capabilities and taking advantage of information technology... When I speak of ease of doing business in India, I also want to pay equal attention to the ease of doing research and development in India...This is the age of online marketing, accept modern science and make use of it..."

## SUNSHINE SECTORS RETAIL TRADE, E-COMMERCE, M&E

### Opportunities

- India's retail trade industry to grow to USD 1 trillion by 2018-19[1]
- Cumulative spending of USD 950-1900 million on warehousing and logistics by e-commerce companies till 2020[2]
- Indian media & entertainment (M&E) sector projected to be ₹ 1.96 trillion by 2019[3]

### Direct Benefits for the Indian Economy

- Organized retail to employ 70 million by 2018-19 from the current 10 million[4]
- E-commerce to contribute 4% of GDP and create 1.5 million jobs by 2020[5]
- 0.9 million new jobs in the M&E sector during 2013-22[3]

### Short Term Recommendations

- Industry status for retail; simplified labor laws; benefits under Sec 72A
- Expedite GST; exemption/reduction in service tax on commercial rentals of retailers
- Rationalize 'Angel Tax' (Sec 56); clarify access to the Startup Fund
- Complete Phase III and IV of Digital Addressable System; rollout Phase 3 auction of radio licenses
- Uniform foreign investment cap, and full FDI/FII fungibility across all media segments

### Long Term Recommendations

- Roll out a National Policy for retail & internal trade
- Incentives for retail companies to set up back-end supply chain
- Weighted deduction of 150% for R&D expenses of high-tech startups
- Enforce anti-piracy laws; include electronic media under the Copyright Act

## EXPORT POWERHOUSES IT/ITES, CONSULTING/R&D SERVICES

### Opportunities

- India top preferred destination for IT, BPO, voice services[6a]; 11500 tech startups expected by 2020[6b]
- R&D services to double to USD 38 billion by 2020[7]
- Indian consulting services accounts for 20% of global consulting revenues[7]

**We invite valued inputs from regulatory agencies, bureaucrats, economists, industry leaders and bankers**

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1. KPMG Report: Indian Retail The next growth Story; 2. PwC Report: Evolution of e-commerce in India; 3. KPMG Report: Indian M
6. (a) AT Kearney Global Services Location Index 2014, 6. (b) NASSCOM Estimates; 7. Economic Survey 2014-15; 8. McKinsey Repo

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### irect Benefits for the Indian Economy

Technology based service delivery to have an economic impact of USD 0.5-1 trillion a year in 2025[8]

### hort Term Recommendations

Institute a robust accreditation mechanism for consultancy professionals

Rationalize multiple tax regime on software products; withdraw MAT on SEZ

### ong Term Recommendations

University Innovation Clusters or Districts for specialist R&D firms

Finalize the bilateral Social Security Agreement (SSA) with the USA

## PILLARS OF THE ECONOMY
## FINANCIAL, ACCOUNTING, LEGAL AND ARBITRATION SERVICES

### pportunities

Potentially the 5th largest domestic banking sector globally by 2020, 3rd largest by 2025[9]

### irect Benefits for the Indian Economy

Improved bank credit to GDP ratio from 75% to atleast 165%[10]

### hort Term Recommendations

Encourage the adoption of biometrics (security), USSD (payments), cloud technology (backend infrastructure) for financial inclusion

Transfer state ownership of public sector banks to Holding Company

- Rationalize Securities Transaction Tax and Dividend Distribution Tax
- Develop skills for international accounting and law practice

### Long Term Recommendations

- Develop Mumbai as the Economic Capital Region (ECR)
- Develop special zones for international arbitration centre
- Set up a credit information bureau dedicated for MSMEs
- Increase liquidity and depth of debt, equity & derivative markets

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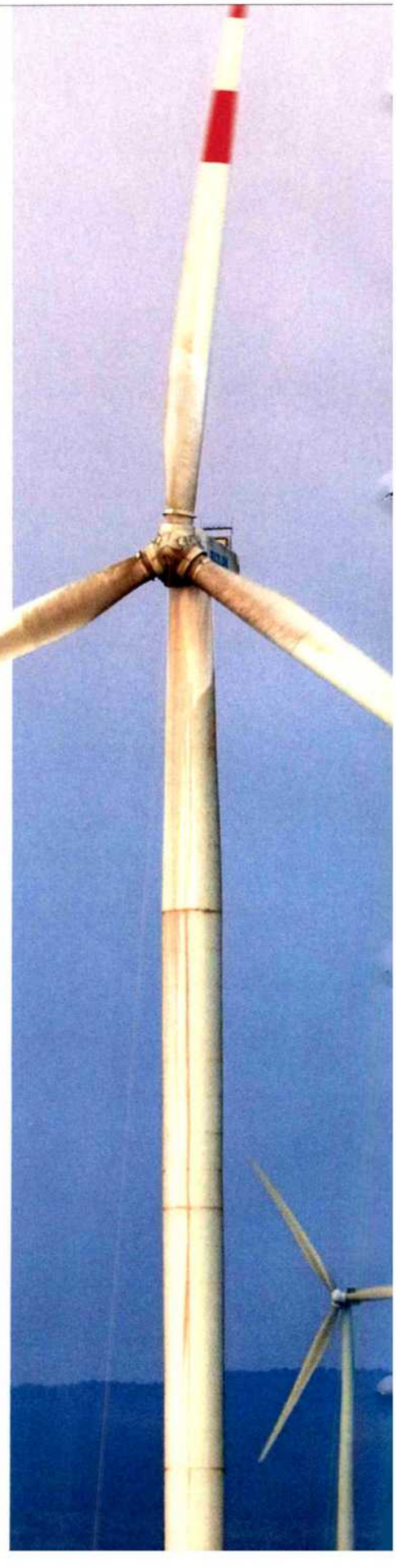
ustry 2015; 4. Tata BSS Report: India Retail Trends 2014; 5. KPMG IAMAI Report - e-commerce 2014;
dia's Tech Opportunity; 9. KPMG Report: Indian Banking Emerging Strategies; 10. Lok Sabha Report: Financial Sector in India 2013.

With the accelerated depreciation tax benefit and generation-based incentives restored, the wind energy sector is flying high again.

By ANILESH S. MAHAJAN

# SECOND WIND



It's a speed of change even wind gods would approve of. All but given up for dead – especially after the government withdrew two big incentives in the 2012 budget – the wind power sector is now back in the reckoning.

Consider these facts. Suzlon Energy, a poster boy of the pre-2008 boom in the sector before it became a case study of the perils of expanding too fast, will start selling a new turbine called S111 from June that it claims produces 29 per cent more power than the conventional ones. Dilip Shanghvi, Sun Pharma chief and one of India's richest individuals, along with his family bought 23 per cent of Suzlon for ₹1,800 crore in February.

The Indian arm of Suzlon's global rival, Spain-based Gamesa, will also introduce a new product soon. Another top wind equipment manufacturer, Inox Wind, came out with an initial public offering (IPO) of ₹1,025 crore in March which was subscribed 18.6 times.

Wind energy producers are not far behind. Last July, ReNew Power received $140 million in funding from Goldman Sachs, Asian Development Bank and Global Environment

SUMANT SINHA
CEO, RENEW POWER

"It took us nine to 10 months to get the land transferred for our project in Madhya Pradesh... Things have to move faster"

VIVAN MEHRA

## AT A GLANCE

**23.44 GW**
India's installed wind power capacity, fifth highest in the world

**179.1 bn units**
Cumulative wind power generated till December 2014

**2,208 MW**
Wind power generation capacity added in 2014/15

Source: Ministry of New and Renewable energy

Fund. In February this year, IDFC-backed Green Infra signed a deal with Singapore-based Sembcorp Industries under which the latter bought 60 per cent equity in the company for ₹1,051 crore. In April, automaker Ashok Leyland sold a 48.5 per cent stake in Ashok Leyland Wind Energy to Chennai-based Rajalakshmi Group for ₹170 crore. And on May 12, Bangalore-based Enzen Global agreed to pay $2 million to acquire Luminous Renewable Energy Solutions, a maker of small wind power and wind-solar hybrid systems. "India will need reliable and clean energy to take its growth forward," says Sunil Gupta, Vice President of Sembcorp's renewable energy division.

### Blowing Hard

A lot is happening in this segment, in stark contrast to the lull of 2012/13 and 2013/14 when growth in installed capacity slowed to 1,669 MW and 2,079 MW, respectively, from the peak of 3,200 MW in 2011/12. The total investment fell from ₹19,000 crore in 2011/12 to ₹10,700 crore the following

year and ₹9,400 crore the year after. Though wind energy is the largest component of the renewable energy basket in India – around 23.5 GW out of a total of 35.8 GW versus 3.7 GW for solar – investor and media interest seemed to shift markedly towards solar energy in the last few years.

Why did this happen and what has now changed? It was a decision in the 2012 budget that saw the wind drop, when two key incentives for this segment were withdrawn. The first, prevalent since 2003, was the tax benefit of accelerated depreciation (AD), by which wind energy producers could reduce their taxable profit by including up to 80 per cent of the installation cost as an expense in the first year itself. The second was the generation-based incentive (GBI), a subsidy of 50 paise per unit of wind power produced, introduced in the 2011 budget. The solar segment continued to enjoy both benefits.

Investors in wind reacted immediately, and the sharp decline saw the government restoring GBI in the 2013 budget. Finally, in Finance Minister Arun Jaitley's interim budget last year, the AD scheme was brought back as well. (Developers are allowed the benefit of one of the two schemes, not both.)

The Narendra Modi government has also announced the ambitious renewable energy goal of 175 GW by 2022, which includes 60 GW of wind power, rejuvenating the segment. Orders have begun to flow faster than before. At the Renewable Energy (RE) Invest conference organised by the Ministry of New and Renewable Energy in Delhi in February, Suzlon committed itself to increasing installed capacity by 11,000 MW, Gamesa by 7,500 MW and Inox Wind by 5,000 MW. "I'm hoping we will return to profitability this financial year itself," says Tulsi Tanti, CEO, Suzlon. Tanti was once the poster boy of wind energy, but some large global acquisitions – which Suzlon could not quite handle and has since sold off – along with other setbacks, pushed it into the red and forced it to undergo corporate debt restructuring in 2013.

"The AD benefit was announced last July by which time companies had already completed their annual budgeting exercise," says Ramesh Kymal, Chairman and Managing Director, Gamesa India. "It is in the current financial year that the increase in orders is likely to be seen." Others believe the target set has made the bigger difference. "AD-based business is not a sustainable practice," says Banmali Agrawala, President and CEO, GE South Asia. "It could bring in non-serious players. But the renewable energy goals set by the government ensure there is plenty of scope for growth for companies in this sector." Devansh Jain, Director, Inox Wind, points out that his company was an exception, continuing to grow even when the market was sluggish. "India is a robust market for wind power. It has grown beyond mere tax benefits," he says.

## Opportunities Ahead

The traditional hurdle for renewable energy – its price, compared to that of conventional – has practically been overcome by wind energy, more so with the GBI provided. In most states, the tariff, at ₹4 to ₹5 per unit, approaches grid parity, so power producers ought not to have a problem selling. "Today, wind energy tariff is very competitive," says Kymal of Gamesa India. Wind is distinctly more economical than solar energy which, despite the steep fall in the prices of solar panels in recent years, still costs around ₹6 to ₹7 per unit.

Financing has also been an endemic constraint, but the situation is better than before. "We are more comfortable financing wind projects now," says Avijit Bhattacharya, CEO, Tata Capital Cleantech, a joint venture of Tata Capital and International Finance Corporation (IFC) that backs clean energy projects. "Data for wind projects is available and the technology, globally tested, has improved over the years." Recent developments

## UNCERTAIN WEATHER

**Installed capacity in each of the eight wind power generating states and the hurdles to augmenting capacity each one faces**

| STATE | CAPACITY (MW)* |
|---|---|
| **Tamil Nadu** | **7,362** |

**CHALLENGES:**
Lack of evacuation infrastructure, poor financial health of discoms

During the peak windy season last year, many wind power projects were disconnected from the grid, causing losses of around 2.1 billion units

Delayed payments for electricity generation by up to 18 months

| | |
|---|---|
| **Maharashtra** | **4,109** |

**CHALLENGES:**
State Electricity Regulatory Commission revising tariff downwards, which could have negative impact

Only state agencies allowed to set up renewable projects

| | |
|---|---|
| **Gujarat** | **3,503** |

**CHALLENGES:**
Comparatively low feed-in tariff (higher tariff permitted due to higher cost of generation) of ₹4.15/kWh

Renewable purchase obligation (RPO) on discoms not enforced

Signing of renewable energy certificate (REC) based power purchase agreements (PPAs) not allowed

| | |
|---|---|
| **Rajasthan** | **2,845** |

**CHALLENGES:**
Grid strengthening required in various regions with wind potential

Delay in payments

Cable theft by organised, armed groups

| STATE | CAPACITY (MW)* |
|---|---|
| **Karnataka** | **2,511** |

**CHALLENGES:**
Comparatively low feed in tariff of ₹4.20/unit

Forest land clearance difficult, has taken 3-4 years in some cases

Private land cannot be purchased by wind energy companies

| | |
|---|---|
| **Andhra Pradesh** | **792** |

**CHALLENGES:**
PPA procedures are tedious, discoms slow to sign

Lack of evacuation infrastructure in the wind potential areas, developer expected to bear cost of building infrastructure as well

Buying agricultural land difficult, and changing land use even more so

| | |
|---|---|
| **Madhya Pradesh** | **448** |

**CHALLENGES:**
Capacity allotment made only twice a year which restricts developers

PPAs signed only after commissioning of projects

| | |
|---|---|
| **Kerala** | **35** |

**CHALLENGES:**
Grid network in some high potential areas weak, investments needed

Availability of land a major concern since most of the sites needed fall within tea/coffee estates

| | |
|---|---|
| **Others** | **4** |
| **TOTAL** | **21,609 MW** |

*As on August 7, 2014
Source: Ministry of New and Renewable Energy, and Indian Wind Power Association

also augur well: the Reserve Bank of India's revised norms for priority lending by banks, released on April 24, included renewable energy. Four days later IFC and PTC Financial Services said they were joining hands to raise renewable energy funding.

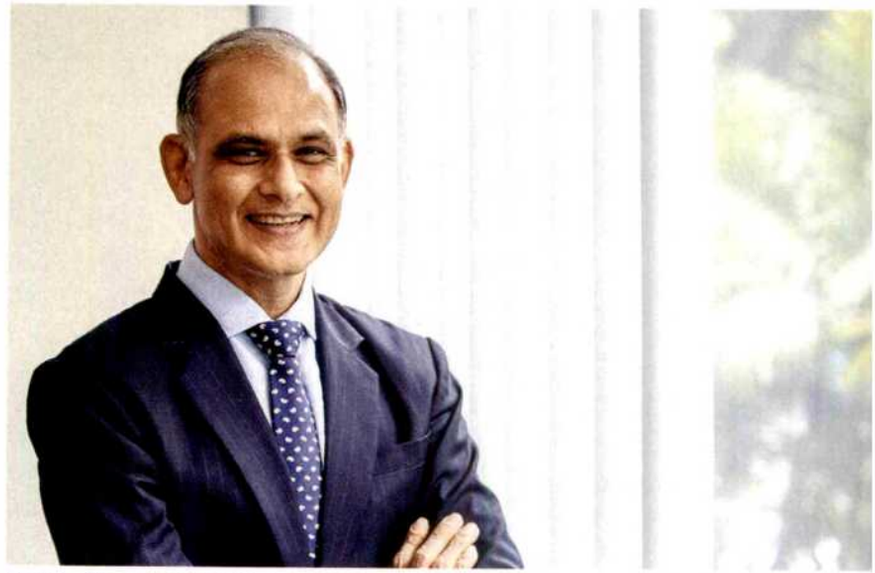
The government is also sympathetically considering the suggestion that the loan tenure of wind energy players should be linked to lifespan of their wind farms. At present, even long-term loans have to be repaid in 12 years, while a wind farm lasts 25 years. "If the financing is for longer periods, the tariff can be brought down, which will make things easier for the states and ultimately for consumers," says Suzlon's Tanti.

Again, there is global opportunity available for Indian equipment makers, given that every country is scrambling to build wind energy capacity. The current global installed wind capacity is around 370 GW, but is estimated to increase by another 1,150 GW by 2020 and 2,500 GW by 2030. "India can cater to global demand because of the low manufacturing costs here," says Upendra Tripathy, Secretary, Ministry of New and Renewable Energy. Currently, China is world leader in wind energy with an installed capacity of 115 GW, followed by the US, Germany and Spain, with India in fifth position.

## Remaining Barriers

But some barriers remain. Setting up wind farms calls for sites where wind speeds are high and basic infrastructure, both to transport the elaborate equipment used – towers, blades and more – to the farm and transmit the power produced to the grid, exists. So far only eight states – Tamil Nadu, Maharashtra, Gujarat, Rajasthan, Karnataka, Andhra Pradesh, Madhya Pradesh and Kerala – have such sites and infrastructure available (see *Uncertain Weather*.)

Equipment providers, who set up the wind farm before the power producer takes over, chafe at the limitations. "There are efforts on to widen the wind power base, but that will require technological innovations as well as better infrastructure," says



SUNIL GUPTA, VP (RENEWABLE ENERGY), SEMBCORP
"India will need reliable and clean energy to take its growth story forward"

Gamesa's Kymal. "It is challenging to transport equipment beyond a certain size on Indian roads." Similarly, extensive additions to transmission infrastructure are required.

Land acquisition is a problem for most new projects – and wind energy ones are no exception. "It took us nine to 10 months to get the land transferred for our project in Madhya Pradesh," says ReNew Power's

TULSI TANTI, CEO, SUZLON

"If the financing is for longer periods, the tariff can be brought down, which will make things easier for the states, and ultimately for consumers"

founder and CEO Sumant Sinha. "The local community had no objections. It was just the government offices which took so much time. Things have to move faster."

To encourage clean energy, every state government has set renewable purchase obligations (RPOs) – it is mandatory for state discoms to buy five to 10 per cent of their power from renewable energy providers, even if it costs them more than conventional power does. But in many states, the RPO is not enforced. "Andhra Pradesh and Madhya Pradesh are RPO-compliant and have seen a lot of addition of wind generation capacity in recent years," says Anil Sardana, CEO, Tata Power. The clear implication is that other states are not. "Even when states abide by RPOs, they just meet their targets and don't go beyond that," says another clean energy developer who prefers not to be named.

If central policy has been inconsistent, so has that of some states. Tamil Nadu, for instance, is the leading wind power state in the country with an installed capacity of 7,362 MW, but one of its decisions in 2013 did the segment immense harm. The government directed wind players to reduce their supply to the grid during a high wind season.

"Suppliers lost around 2.1 billion units," says D.V. Giri, Secretary General, Indian Wind Turbine Manufacturers Association. There are also conflicts with the state load dispatch centre. "We've said we're ready to help them understand wind power forecasting and evolve a mechanism for scheduling of power."

## Wind versus Solar

Wind power has limitations – it peaks during monsoons and at nights, when the demand is low. Predictability of output and storage are also issues, which is why state load dispatch centres prefer other power. Solar power, in contrast, is its strongest during the day, which has led to speculation that once the price of solar power achieves grid parity, it may outstrip wind. "Given the pace at which solar has been getting cheaper, its tariff could well become less than that of wind in the next 24 months," says Vineet Mittal, Vice Chairman of green technology company Welspun Renewables. "From then on, I expect more solar-based units to come up."

At the February RE Invest conference, renewable power producers committed themselves to installing 166 GW solar energy but only 45 GW of wind energy. A number of leading wind energy players, including Suzlon, Gamesa and ReNew Power, are also getting into solar. "India has more sunshine than wind, hence solar energy is the way forward," says Gamesa's Kymal. Blending the two may be the best solution.

More steps are on the anvil to encourage renewable power. Power Grid Corporation, for instance, has a ₹43,000 crore proposal to create a green corridor to make it easier for renewable energy to flow into the national grid. "We understand the infrastructure issues, and are working on the green corridor solution," says Minister for New and Renewable Energy, Piyush Goyal.

Many states are also working towards a multi-year tariff (MYT) policy, which will keep tariffs within a range. "Gujarat has an MYT policy, so does Madhya Pradesh, Rajasthan, Maharashtra and Andhra are working towards it," says Inox Wind's Jain. "This gives us confidence to plan things." ◆

*@anileshmahajan*

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# The Mind of Rahul Yadav

## The method behind the cult and the crazy ways of the Housing.com CEO. By TASLIMA KHAN

What would you expect at the first town hall meeting of a young start-up? A chance to let off steam over poor airconditioning? A chorus against the cafeteria food?

If it is a young company led by a 26-year-old who, in a matter of weeks, fought a public battle with a venture fund and a media house, sent his resignation to the board and then pulled it back, you could go so far as to tell him to chill a little.

The 2,251 employees of property search portal Housing.com may have been thinking on those lines on May 13 as they trooped into The Renaissance Mumbai Convention Centre Hotel on the banks of Lake Powai, one of Mumbai's more picturesque pockets, a short distance from Housing's corporate office. But if there was anything bubbling in their minds, it had to stay bottled up. Rahul Yadav, their 26-year-old CEO, had other things on his mind.

"It (real estate) is a hard problem to solve and that is what motivates me and I will work to solve that problem." Yawn, he always said those things.

"It is written in my stars that I will make a lot of money in life, and that I will." Of course! Didn't he just buy a Porsche Cayenne?

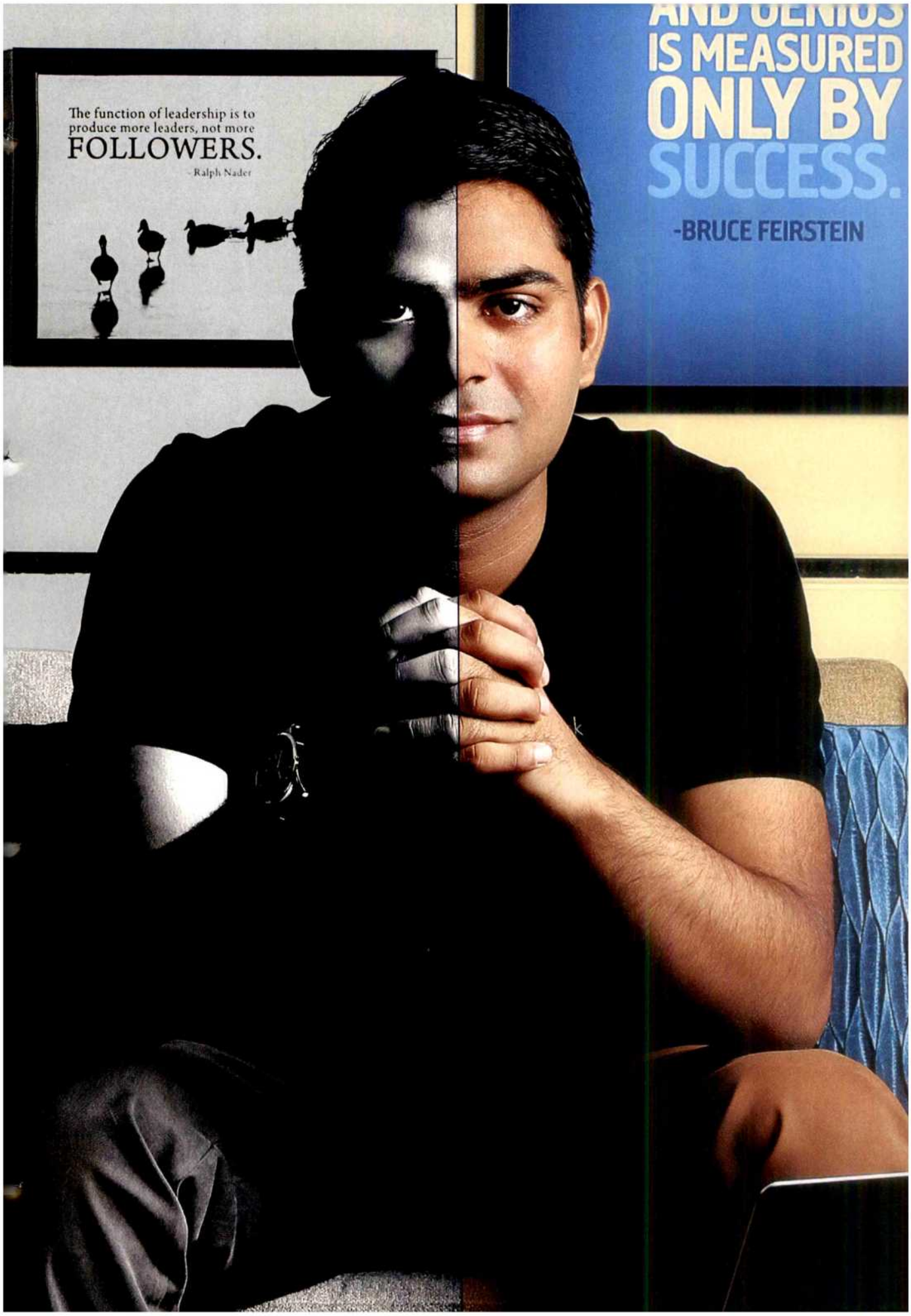
"I'm just 26, and it's too early in life to get serious about money, etc." Cute!

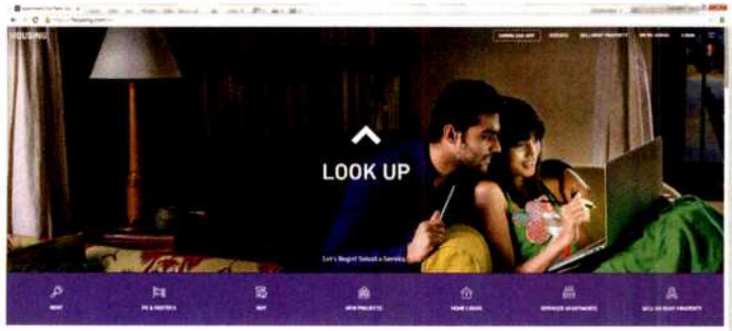
But nobody was, or could have been, prepared for what Yadav said next. He was going to distribute his 4.5 per cent equity in the company among the employees – every last share. He will make Housing a $10 billion company without holding a single share in it. That will show those people who keep talking about the importance of having your skin in the game. It was about the vision, not the equity.

Some say Yadav's stake is valued at ₹200 crore, some say ₹70 crore. Neither is small change. More importantly, this is India. Nobody gives anything away here unless the law compels them to. Venerable promoters sit on humongous stakes, some through a complex web of holding companies. Yadav's statement at the town hall is still just a statement. It has to go through the usual rigmarole of paperwork before his shares actually land with the employees. But he has said it publicly, how can he backtrack? It's not a resignation letter.

So what do you make of Yadav? Mind

> "It is written in my stars that I will make a lot of money in life... I'm just 26, and it's too early in life to get serious about money"
>
> **RAHUL YADAV, Co-founder & CEO, Housing.com**


The function of leadership is to produce more leaders, not more FOLLOWERS.
~Ralph Nader
IS MEASURED
ONLY BY
SUCCESS.
-BRUCE FEIRSTEIN




Company Name: Locon Solutions, which owns Housing.com

Launched: June 7, 2012

Total employees: 2,251

Revenues: ₹1.91 crore (2013/14)

Acquired: Indian Real Estate Forum for ₹8 crore in March 2015

Properties listed: 7.5 lakh

Cities covered: 55

Housing's Board: Advitiya Sharma, Rahul Yadav (both Co-founders), Nexus's Suvir Sujan, Helion's Ashish Gupta, Jonathan Bullock of SoftBank

you, you have to take sides. A world whose opinion is increasingly shaped by the social media, nobody has time for fence sitters. Out there on Twitter and Facebook, the verdict ranges from "cult hero" to "crazy" and "immature". The latter side still chuckles at Yadav's chosen address for Sequoia's Shailendra Singh – "Dude" – in an e-mail that told Singh to lay off Housing. And at his now famous resignation letter to the board: "I don't think you guys are intellectually incapable..."

We try to find the method behind the cult and the crazy.

## Stock Talk in the Air

The reason behind the giving away of the stake is not very clear, but there is indeed context. A Housing insider, who is part of its top layer, says there has been considerable discussion about creating a pool of equity to start a system of ESOPs.

As the company has raised funds from investors ($121 million at last count), the stakes owned by the co-founders (nine remain of the 12 that started the company) have become minuscule. Yadav's 4.5 per cent is the highest by a long yard. Ninety-five per cent of the employees do not own a single share in the company.

It seems the investors – the biggest are SoftBank, Nexus and Helion – were planning to give some equity to the co-founders and also create a pool from which ESOPs could be given to lure and retain employees.

Here the picture becomes hazy. One does not know which way the discussion went, but these days heat and handwringing are never far from a meeting of the Housing board, even with the reconstituted one that has more representation from investors.

There was much heat even before the reconstitution, as the board may have thought of getting someone else to replace Yadav as the CEO. Things were not going swimmingly for the company. It had spent a fat packet on marketing – reportedly ₹100 crore – but the measurable returns on it were not much. The company wanted to acquire a smaller rival and was close to paying a much larger sum for it than could be rationalised. According to a source who does not want to be named, reckless spending led to a situation where there is only enough cash to survive the next three to six months. "Given Yadav's current reputation, it is difficult to say what the company will do if it cannot raise follow on funding," he says.

People were leaving the company. But Yadav's resignation changed the game, the goalpost, and the turf. In a swirl of sympathy and slander, nearly everybody woke up to his contribution, especially in building the technology.

"Anyone who has met Rahul will tell you he is incredibly talented. He has trained some of the best techies and has a cult status among them. His hunger to change the status quo jumps at you within minutes of meeting him. His tech-plus-

product vision is outstanding," tweeted Tarun Davda, Director at venture capital firm Matrix Partners India, adding: "But what was also clear was his complete disregard for rules."

The stake giveaway drives the nail in further. Each of the 2,251 employees will be beholden to the man who gave them the equivalent of many months' salary. And the value of those shares will, at least in the short term, go down if there was to be an acrimonious exit of the CEO.

Davda says Yadav is confident and knows what he is up to and against. The press statement after the resignation drama on May 5 by Housing's public relations agency Genesis Burson-Marsteller could well be an acceptance of the fact that investors as well as board members were worried that the company would flounder if Yadav stepped down, simply because he was crucial to the product, called Housing. "In the relatively short period of its existence, Housing has revolutionised the real estate market in India and it continues to lead and disrupt with world class product innovations. Today, the Housing board met and has been reconstituted to include all main shareholder representatives. After some good conversations the board has reaffirmed its faith in Rahul Yadav's vision at Housing," it stated.

## On the House

The foundation of Housing.com was laid by 12 IIT Bombay guys in June 2012. While Yadav dropped out of the course in the final year to give shape to the company, the remaining founders, including Advitiya Sharma, completed their studies before joining the start-up as full-time employees. "We were all techies and we are not very accustomed to the way the world functions. If we were, we would be using some other real estate site instead of doing what we are. When you do not get accustomed (to something) you build new things. That's how Housing was born," says Vaibhav Tolia, one of the co-founders, who was responsible for developing the company's mobile interface.

**February and March 2013**

Undisclosed amount from Network18 CEO Haresh Chawla and angel investor Zishaan Hayath

**June 2013**

Series A funding of $2.5 million from Nexus Venture Partners

**April 2014**

$19 million led by Helion Venture Partners

**December 2014**

$90 million led by SoftBank at $250 million valuation

With his team of techies, Yadav has crafted a story which any technology start-up in the country can only dream of. Many see Housing as the poster boy of India's hottest breed of start-ups, a company that has not only come a long way to disrupt the existing methods of searching properties, but also convinced some of the top investors to pump in $121 million in just two years of its existence. So inspiring has been the story, that Housing has become a big draw for young graduates who prefer a stint at the start-up instead of opting for high-profile jobs at tech majors.

According to Gagan Goyal, Founder and CEO of Thinklabs Technosolutions, and one of the eight angel investors who had invested in the start-up within a few months of its launch, Yadav is changing the skyline of the realty e-broking space. "Within a couple of weeks after meeting him at my Powai office I was convinced he was different. He is not just a regular entrepreneur," says Goyal, adding what Yadav had told him way back in 2013, when Housing was still trying to find its footing in the segment: "I am making something which is as big as Facebook. In fact, I will make real estate as big as Facebook in India."

With Yadav at the helm, Housing's journey has been "crazily awesome", says Tolia, who has moved on to start his own venture. "I did not quit over differences with Rahul. I never had any serious issues with him. Our roles were clearly defined. He is good and has worked hard to create a big company, irrespective of his personality traits. He was supposed to do a job and he did it amazingly well."

Recalling the Housing days, Tolia breaks into a chuckle. "The partying and posting of videos on YouTube, working like crazy for five days and then staying up all night in the summer of 2013 ahead of the company's Bangalore launch, and the excitement in anticipation of the company's first coverage in TechCrunch, the popular, AOL Media-owned blog on start-ups. Every bit of it was awesome."

**Total funding $121 mn**

# The Spate of Spats

## How it started...

**Housing CEO Rahul Yadav writes to Sequoia Capital's Shailendra Singh, March 6**

Dude,
I have been humble to you guys even after inhuman and unethical things that you've done with Housing... I just came to know you are personally after Housing's employees... If you don't stop messing around, directly or even indirectly, I will vacate the best of your firm.

**Shailendra Singh, MD, Sequoia Capital, responds on Quora on March 11, 2015. Excerpts**

I am deeply hurt by this e-mail... it came as a surprise and a big disappointment.

**Rahul Yadav reverts to Shailendra Singh**

You clearly know what s*** you've done with multiple entrepreneurs and start-ups in India with your cheap and dirty tactics... Unlike being fake like you, I'll be true here- I do not wish good for you or your firm until you're at the helm.

**Rahul Yadav's e-mail to employees in April**

...In April we've beaten, burden on the society, MagicBricks & 99acres... Starting so late in such a hyper competitive space and winning in such a short time is a historic achievement!

**Rahul Yadav's resignation e-mail dated April 30**

Dear board members and investors, I don't think you guys are intellectually capable enough to have any sensible discussion any more. This is something which I not just believe but can prove on your faces also!
I had calculated long back...that I only have 3L [300,000] (hours) in my life... certainly not much to waste with you guys! Hence resigning from the position of directorship, chairmanship and the CEO position of the company. I'm available for the next 7 days to help in the transition. Won't give more time after that. So please be efficient in this duration.

**Yadav's e-mail taking back his resignation**

After some frank and healthy discussions with the board, I have agreed to withdraw my resignation and I apologise for my unacceptable comments about the board members. I look forward to staying on at Housing as CEO and building an even greater company, while working in full harmony with the board.

## Putting Housing in Order

Beginning with a map-based search feature that enabled home buyers to get the exact location on Google Maps, the company has consistently been launching new technologies ahead of competition. By the end of the first year, Housing had launched another ground-breaking feature with Price Heat Maps, where buyers could see the price variations across locations in cities and towns in India, while in November 2014 it introduced the Slice View technology to provide an aerial view of under construction projects, primarily to facilitate online bookings for the ones that the company was betting big on.

The company's Data Science Lab comprising 40 techies is an innovation hub that boasts of ground-breaking technology in the realty e-broking space. From rating properties on parameters such as child-friendly index to lifestyle needs, or its virtual reality tours, Housing offers the best. Its team of 500 data collectors across 55 cities has solved the problem of fake or unverified properties. It collects data on a 100-point index to ensure the customers get every detail that could influence their home-buying decision. Housing has also introduced other verticals such as online signing of rental agreements and home loan applications – areas it hopes to monetise soon.

"We have grown 10 times over the past six months from an average listing of 400 to 500 homes a day to 4,000 to 5,000 houses every day," Advitiya Sharma, one of the co-founders, told *Business Today*, adding property listings would go up to 12,000 to 15,000 a day over the next couple of quarters. Sharma brushes aside the competition's capabilities in copying technologies that Housing has developed. "For example, virtual reality tours launched later by others are only a B-grade version of our Slice View feature," he adds. The company believes it has been able to sell about 700 homes online from builders, including Tata Value Homes and Nirmal Builders – a rare feat in e-broking in India. Yadav often had a direct role to play in each innovation. The ideas behind product innovation have been accepted by prospective customers as much as by the company's own people.

Yadav's Housing colleagues look up to him. And, that is where he draws his strength from, while taking on the likes of SoftBank and Sequoia.

## SoftBank Plays Hard Ball

For SoftBank ,the $90 million funding into Housing in December 2014 was one of the biggest bets in the Indian start-up space. Its other investments were in Ola Cabs and Snapdeal, where it has pumped in $210 million and $627 million, respectively. However, while both Ola and Snapdeal had a proven business model in place, Housing was a high risk investment because it was yet build a perfect product and find a footing in the realty e-broking market. Clearly Yadav's conviction in the product helped Housing clinch the deal.

Therefore, knowing how important Yadav was to the product, SoftBank had no option but to convince him to stay on. However, after the resignation episode on April 30, the company's largest investor had no option but to take steps to have a tighter control over Housing by forming a five-member executive committee headed by its representative Jonathan Bullock, who will replace Vice Chairman of SoftBank Corporation Nikesh Arora. The committee will closely monitor the financials and operations of the company. Yadav will now have to take approval of the committee before taking key decisions.

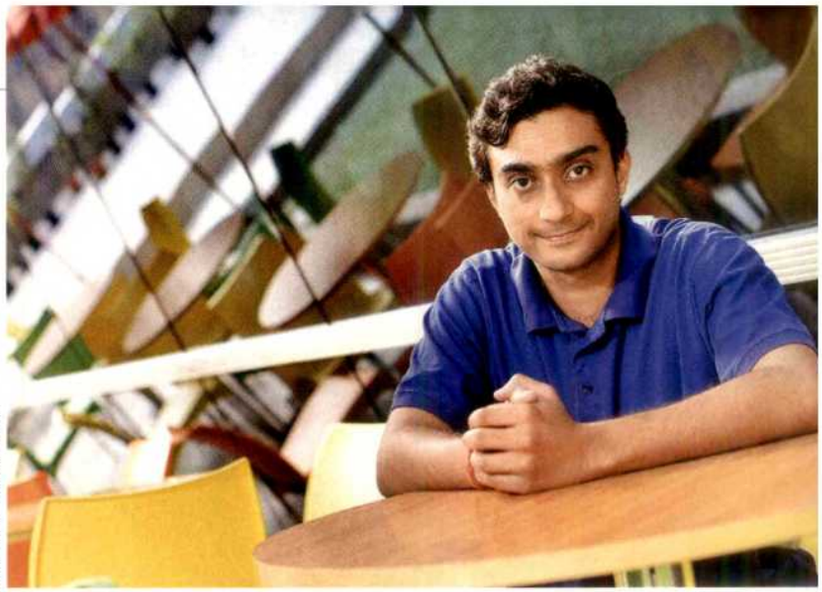
Early investors in Housing, as well as those like Matrix Partners' Davda, who know Yadav well, feel an ideal combination would be to let him take control of the product while someone else runs the company. "The company could have avoided these needless distractions if Rahul was supplemented with a strong business-builder whom he trusted. Facebook founder Mark Zuckerberg got in Sheryl Sandberg, Larry Page and Sergey Brin brought in Eric Schmidt to build the business so they could focus on the product," Davda tweeted, adding that Yadav is indispensable to the company, no matter what.

Yadav's letter of apology after the resignation fiasco could well be a turning point. "After some frank and healthy discussions with the board I have agreed to withdraw my resignation and I apologise for my unacceptable comments about the board members. I look forward to staying on at Housing as CEO and building an even greater company, while working in full harmony with the board."

But given his tendency to get into public spats, Yadav may continue to keep us engaged. His e-mail message to Sequoia's Shailendra Singh on March 6 is a case in point, where he accused Singh of poaching key employees to open an incubation facility, and threatened him of harm to his company. Sequoia had been trying to expand its team of analysts and had met about 100 candidates, including two of Housing's employees, with each of whom Singh had spent an hour.

To be fair, though, there may have been some inclination in the Housing employee to explore other options. Why else will they meet Sequoia? One does not know whether these two were in the town hall on May 13, but, if they were, they would not be meeting Sequoia again any time soon. Those shares won't let them. ◆

*@KhanTaslima*



RACHIT GOSWAMI

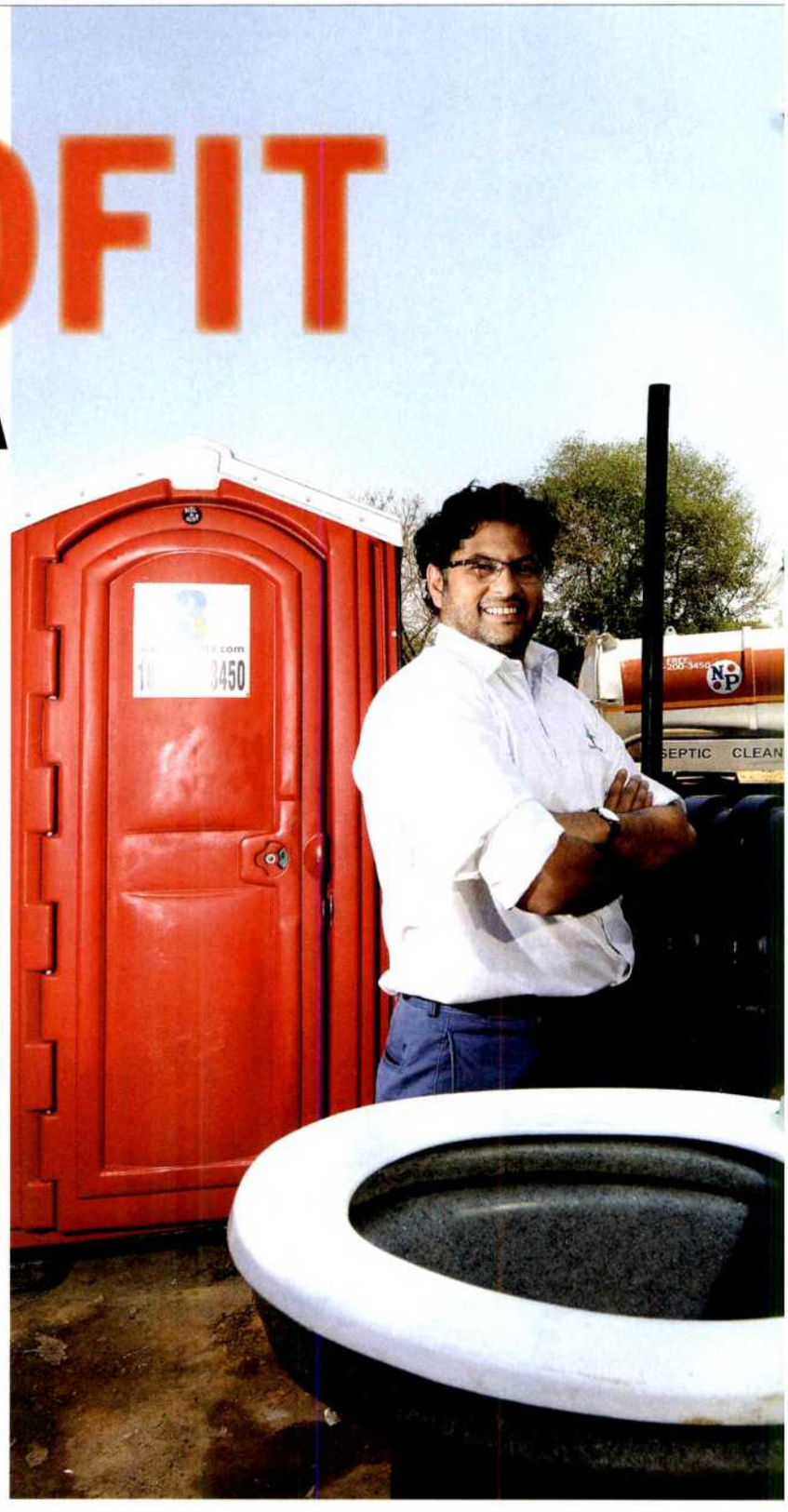
"We have grown 10 times over the past six months, from an average listing of 400 to 500 homes a day to 4,000 to 5,000 houses every day"

**ADVITIYA SHARMA, Co-founder, Housing.com**

# PROFIT FROM A CAUSE

## INVESTING IN SOCIAL ENTREPRENEURS MAKES SOUND BUSINESS SENSE.

By SHAMNI PANDE




RAJEEV KHER →
Managing Director, Saraplast

"I will never forget that when I started off, it was Aavishkar which came forward to support me"

SHEKHAR GHOSH

**MAKING AN IMPACT:**
A snapshot of impact investment in India

**$1.6 billion**
Amount invested in 300 social enterprises in India

**$432 million**
Amount invested by impact funds

**$906 million**
Amount invested by regular VCs and PEs

**$6 billion**
Amount likely to be invested by 2020

**197%**
The highest internal rate of return earned by an impact investor in India

**12%**
The average rate of return earned by impact investors in India

**70%**
Share of the microfinance sector in total investment received by social enterprises in India

Source: Industry estimates

Watch interview with Rajeev Kher at businesstoday.in/saraplast-kher

Making and selling portable toilets? Investors wrinkled their noses when Rajeev Kher, Managing Director of Pune-based Saraplast Pvt Ltd, first sought funds from them in 1999. Sixteen years later, the toilets have been such a success that he is spoilt for choice as he looks for a third round of funding. "My company has been profitable for a long time," he says. "But I will never forget that when I started off, it was Aavishkar which came forward to support me."

And what exactly is Aavishkar? Set up in 2001, it is the largest of India's impact investment funds – firms which provide money for projects seeking to meet the critical needs of people. These are not philanthropic institutions, but expect profitable exits with healthy returns just the way private equity (PE) and venture capital (VC) funds do. "Ours is a very misunderstood space and we are trying to address that," says Amit Bhatia, CEO of the recently formed regulatory body of such investors, the Impact Investor Council (IIC). "Many people still think social contribution can only be through charity. We want to break the myth. The IIC seeks to build an ecosystem where enterprises can do good, while earning profits too."

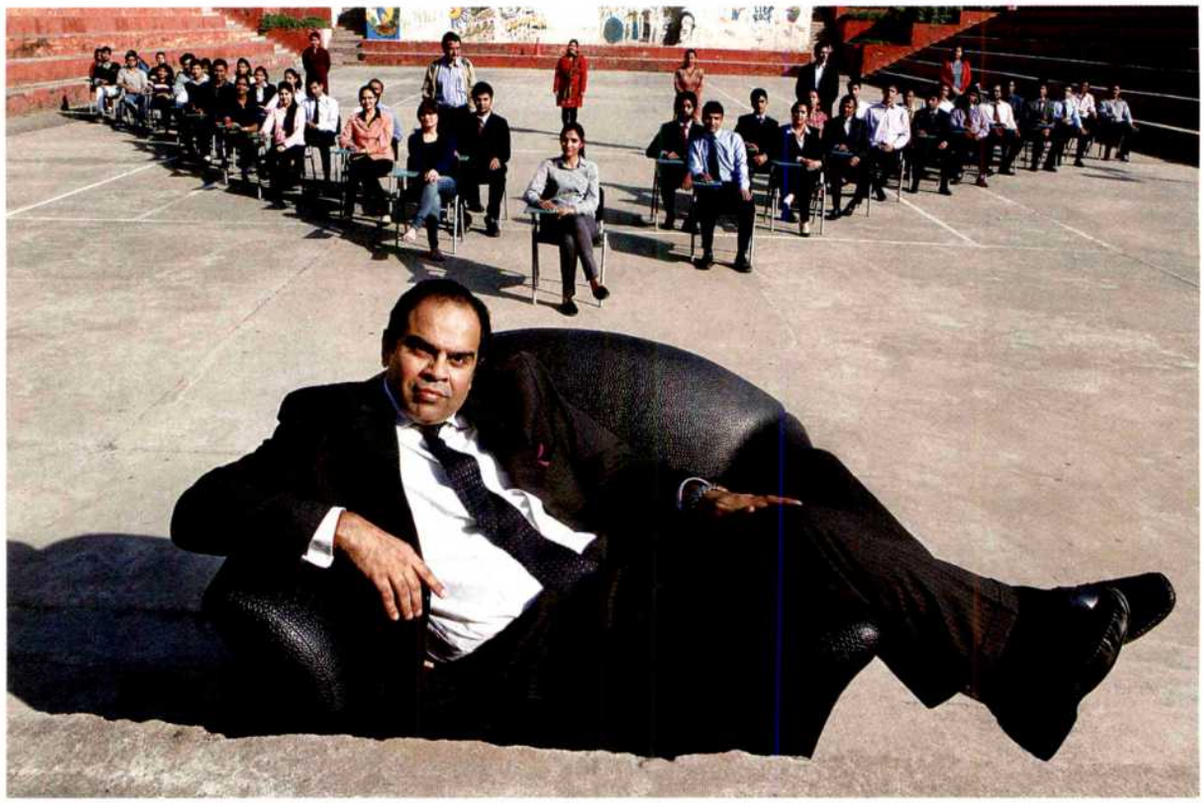
No doubt there will be hurdles. Vineet Rai, CEO and Managing Director of Aavishkaar, recounts an effort to raise funds in Hong Kong in 2010. "Before I started speaking I was told that most fund managers from India made similar pitches, and unless I had a differentiated theme, I would not get any investment," he says. "I completed my presentation. There was absolute silence. I was finally told my theme was so different that they could not invest in it either."

## Success Stories

The short-sightedness of the Hong Kong managers is apparent from Aavishkar's record – 13 profitable

AMIT BHATIA →
CEO, Impact Investor Council

"Many people still think social contribution can only be through charity. We want to break the myth"



exits out of 19 from the 48 companies it backed in the last 12 years. (Of the remaining six, Rai readily admits, three were complete disasters, while three others lost money.) "Overall, we got about ₹115 crore return from an investment of ₹40 crore, which means a gross multiple of 2.9 times the invested capital," he says. "All sales were to private equity investors and the rate of return varied from 25 to 30 per cent."

Lok Capital, started in 2002, is a similar success story. It raised $22 million for its fund, Lok Fund I, which was invested in 10 companies. "We have exited seven successfully, one had to be written off in the wake of the crisis in microfinance in Andhra Pradesh and we are negotiating for one exit this year," says Vishal Mehta, co-founder and Managing Director, Lok Capital. "We had an internal rate of return of 25 to 30 per cent and at the fund level we had a rupee return of 16 per cent." Similarly, Caspian Impact Investment Advisor has so far exited seven of the investments made by its Bellwether Microfinance Fund set up in 2005. "Our internal rate of return on all our exits ranged between 15 and 24 per cent," says Mona Kachhwaha, CFO, Caspian.

According to *The India Impact Investment Story*, a 2014 report by Intellecap, which advises social enterprises, there are currently 100-odd such companies in India, which have invested a total of $1.6 billion in around 220 social enterprise firms. Of those receiving investment, 75 per cent were in microfinance, with the rest in agriculture, education, health and sanitation. First-round funding was $487 million, and the rest follow-on. "There are at least 30 documented profitable exits among impact investors," says Bhatia of IIC. "The industry is growing at 27 per cent a year and by 2020, is expected to be worth $6 billion funding around 1,000 social enterprises."

## Many Models

There are many models of impact investment. Some, like Bangladesh's Grameen Bank – founded by Muhammad Yunus, the father of microfinance – do not even expect profits. They only want their principal back. Another model is Acumen's, which gathers its corpus from philanthropic contributions. Whatever profit it makes is used on enterprise initiatives and to sustain

the fund's activities. But the majority of impact investors raise funds commercially and believe in profit. Around 70 per cent of their investment is follow-on funding, which indicates their satisfaction with the companies they chose to back.

No doubt regular PE firms and VC funds have also supported social enterprises provided they made business sense – 57 per cent of the latter's funding, according to the Intellecap report, comes from mainstream sources. The report adds that impact investment accounts for another 27 per cent, while the rest comes from development finance institutions (DFIs) such as the International Finance Corporation (IFC), the US-based Centres for Disease Control and Prevention (CDC), the German development banks KfW and DEG, and the French Proparco, from foundations as well as wealthy individuals and their families.

RACHIT GOSWAMI

Are the returns of impact investment companies comparable to those of regular PEs and VCs? "In our business, we target an internal rate of return of 50 per cent and sometimes settle for around 30 to 33 per cent," says Avinash Bajaj, co-founder and Managing Director of PE firm Matrix Partners India. His company has invested in a few social enterprises such as the microfinance institution (MFI) Basix and the clean water solutions provider Waterlife. "Returns from social enterprises cannot match those from mainstream investments. But impact investment now has a better strike rate than before," he adds. Returns may also take longer. "It is for this reason that investment in this space is called 'patient' capital," says Bhatia of IIC.

Among the companies that disappointed impact investors, many were in microfinance. This is because the entire sector received a jolt with the passing of a law by the Andhra Pradesh government in 2010, which imposed strict curbs on MFI functioning and which many of their borrowers interpreted as a licence to default. SKS Microfinance, the poster boy of this sector and the first to list on the bourses, itself went through many tribulations. But MFIs, including SKS, have since re-

VINEET RAI →

CEO and MD, Aavishkaar

"We got ₹115 crore return from an investment of ₹40 crore, which means a gross multiple of 2.9 times the invested capital"

## IT PAYS TO MOVE ON

A number of impact investors have exited from social enterprises in recent years

| ENTERPRISE/ INVESTOR |
|---|
| Shree Kamdhenu Electronics<br>AIMVCF (Aavishkaar Management Venture Capital Fund) |
| Servals Automation<br>AIMVCF |
| Equitas Holding<br>Aavishkaar Goodwill |
| Grameen Financial Services<br>Aavishkaar Goodwill |
| Janalakshmi Financial Services<br>Bellwether |
| Ujjivan Financial Services Ltd<br>Bellwether |
| Janalakshmi Financial Services<br>Lok Capital I |
| Satin Creditcare Network<br>Lok Capital I |
| Janalakshmi Financial Services<br>MSDF |
| Ujjivan Financial Services<br>MSDF |
| Bhartiya Samruddhi Finance<br>ShoreCap |
| SKS Microfinance*<br>Unitus Equity I |
| RangSutra Crafts India<br>AIMVCF |
| Desert Artisans I<br>AIMVCF |
| Desert Artisans II<br>AIMVCF |

*Except SKS, all other exits were through secondary share sales. Unitus exited SKS during the microlender's initial public offering.

NILOTPAL BARUAH

SRIKRISHNA RAMAMOORTHY →
Partner, Unitus Seed Fund

"A number of companies have got additional funding after our investment, which is a good indicator of progress towards an exit"

covered and are likely to perform better in the future.

## Expanded Ambit

In any case, with impact investors expanding their ambit of activity, the dominance of microfinance may even reduce. Unitus Seed Fund, started in 2013, for instance, funds learning centres called Hippocampus, which cater to all sections in regions denied good primary health care and education, not just the poor. "Our third fund, Lok Capital III will have agriculture as an important component," says Mehta of Lok Capital. "There are deals emerging in agricultural supply and food processing." Aavishkar, already a pioneer in the sanitation segment of impact investment, is even looking beyond India. Rai hopes to raise $400 million in 2015. Of this, the first will be a $90-million fund focused on Southeast Asia and South Asia. The balance would be used for enterprises in India, particularly those in their early stages of growth.

Where do impact investors raise their funds from? Most of it comes from bigger global funds. Unitus's Hippocampus, for instance, raised $2.2 billion of Series B funding in mid-2014 from the Asian Development Bank (ADB) and Khosla Impact (a fund promoted by Vinod Khosla and others). But local investment is also picking up. "We're just closing our rupee fund which seeks to raise ₹40 crore to ₹50 crore," says Srikrishna Ramamoorthy, Partner, Unitus Seed Fund. "This is a first-of-its-kind fund where we are raising only rupee capital." Leading investors include socially conscious individuals such as Mohandas Pai of Manipal Global Education, Anil Rai Gupta of Havells, former Microsoft India chief Ravi Venkatesan, Marico head Harsh Mariwala and investment banker Hemendra Kothari.

Lok Capital III is likely to close its $80 million fund soon. "There are domestic investors willing to pump in money," says Mehta. "We expect commitments from financial institutions. We are looking at pension savings, SME finance and other areas. This is the best time for impact investors in India."

Initial funding from impact investment firms has enabled many a social enterprise to take wing. Among the companies Aavishkar has funded, for example, is Milk Mantra in 2009, a Bhubaneshwar-based dairying enterprise, which delivers milk sourced from 35,000 dairy farmers. Milk Mantra has since

VISHAL MEHTA →

Co-founder and MD, Lok Capital

## "We are looking at pension, SME finance and other areas. This is the best time for impact investors in India"

achieved the financial confidence to make an acquisition – it bought Westernland Dairy in Chhattisgarh in November last year for ₹10 crore. "Impact investors are not that different from other VCs, in that both are looking for profit," says Srikumar Mishra, CEO and founder, Milk Mantra. "But the former are willing to go into areas not easily understood by the latter." His current round of investment comes from the mainstream fund, Fidelity.

"We're a new fund, so no exits yet," says Ramamoorthy of Unitus. "But a number of companies have got additional funding after our investment which is a good indicator of progress towards an exit." He cites skill development company iSTAR, and handicraft retailers Caravan Craft and GoCoop, all of which are raising their Series A round of funding. Another success has been Lok Capital's investment in Asirvad Microfinance, where gold loan financier Manappuram Finance acquired a 70 per cent stake in end-2014.

### Looking Ahead

With the segment still evolving, some areas remain to be worked out. The boundaries of what constitutes impact investing have to be defined, as well as the yardsticks to judge their social impact. "We hope increased awareness about the industry and higher engagement with the government will help to define 'impact investment' and 'social enterprises' in the right lexicon," says IIC's Bhatia. He has made several representations to Jayant Sinha, Minister of State for Finance, who, before he entered politics, headed impact investment firm, Omidyar Network. Better distribution is also needed – so far 60 per cent of the total funding has gone to just 15 social enterprises.

Most importantly, more sources of funding are needed. Bhatia of IIC says the SME exchanges of both the Bombay Stock Exchange and National Stock Exchange could be one such – impact investment firms could list on them, just as mainstream ventures do. He also points to dedicated exchanges for social enterprises in other parts of the world, such as the Social Venture Connexion in Canada, the Social Stock Exchange in the UK or the recently launched Asia Impact Investment Exchange in Mauritius. "There are talks for something similar in India, but it will take a while," he adds.

Extending priority lending sector status to impact investment companies would help too. "We should also have access to external commercial borrowings," adds Bhatia. "Corporate social responsibility guidelines should be modified to include impact investment." Much remains to be done, but, as Lok Capital's Mehta concludes: "It only shows the potential in this space." ◆

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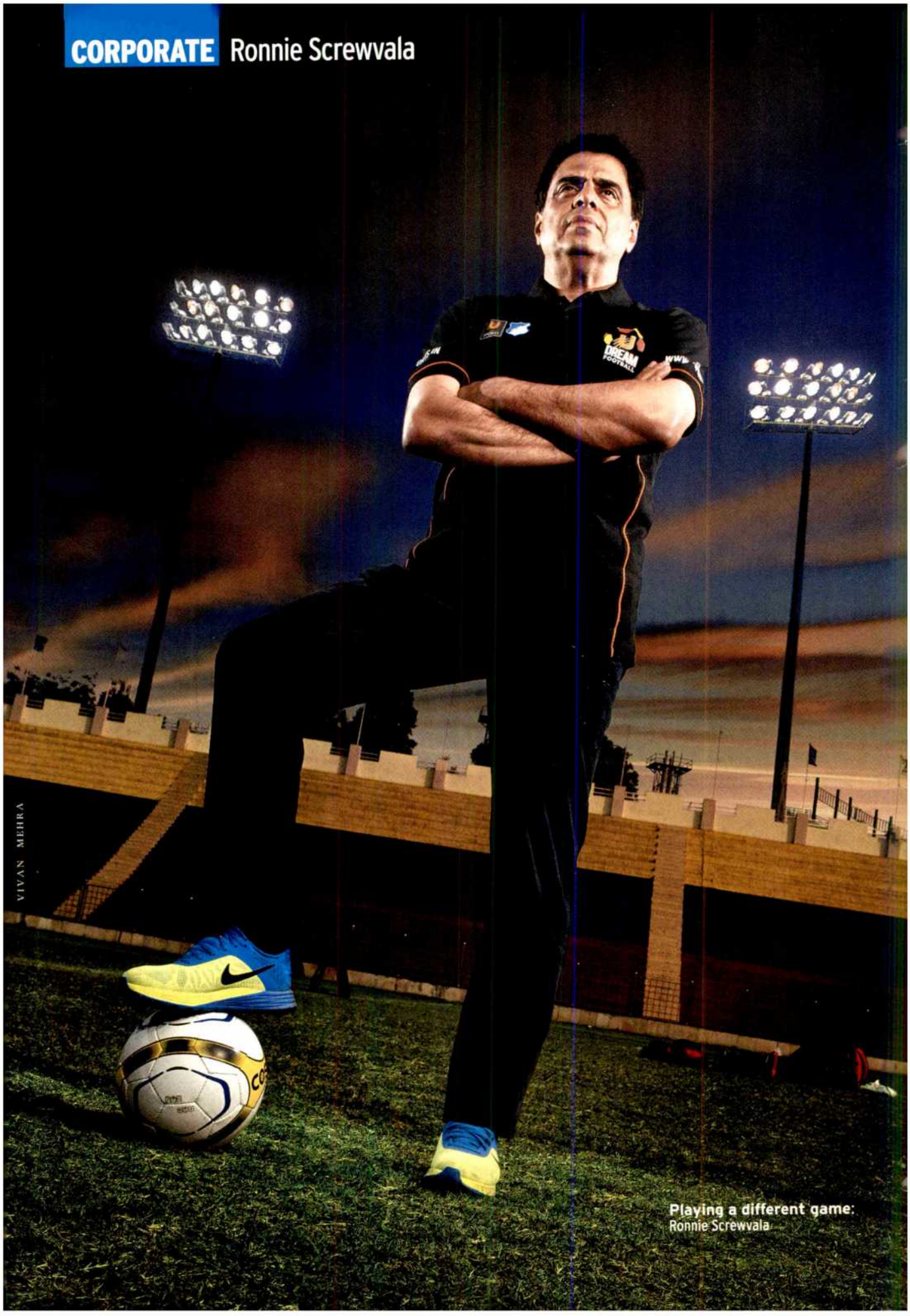



VIVAN MEHRA

**Playing a different game:**
Ronnie Screwvala

# U-TURN

**RONNIE SCREWVALA SHOWS HIS POST-UTV MOVES BY TAKING A SHOT AT UNCHARTED, UNHERALDED BUSINESSES. THIS TIME HE WANTS TO BE A TEAM PLAYER.**

**By AJITA SHASHIDHAR**

Don't take this the wrong way. Ronnie Screwvala has built quite a reputation for himself as an entrepreneur, businessman, manager, and human being. But few believed him in December 2011, when he said he was going to focus all his energy – for the subsequent five years – on building the India business of The Walt Disney Company, which had just bought his films and broadcast company UTV. And the disbelievers included his friends; they thought he was a restless soul.

In fact, even as Screwvala started his stint with Walt Disney as its India Managing Director, he had already set up an ₹800-crore venture capital fund, which went on to invest in companies such as the online eyewear retail, Lenskart, Micro Housing Finance Corporation, which, as the name suggests, finances low-cost houses with small loans, and agricultural seeds company INI Farms. Screwvala maintained that the fund was part of his family office and being managed by his wife, Zarina Screwvala. However, Peeyush Bansal, CEO of Lenskart, says Screwvala had been mentoring the company from day one. "He helped us streamline our business by asking us to opt out of some of the categories that were not yielding great returns. By doing so, our company has grown multifold." Lenskart, which sold barely 20 spectacle frames a day two years ago, today sells over 2,000. Bansal attributes a great deal of this growth to Screwvala's advice to exit jewellery, bags and watches.

It was not just the venture fund. Screwvala also set up his NGO, Swades Foundation, around the time he sold UTV to Disney. Here again, his idea was not to merely sign cheques, but to create an ecosystem that would uplift a million people from below the poverty line. The NGO adopted six blocks in the Raigad district of Maharashtra and has been working in the areas of education, health, agriculture, livelihood, water and sanitation.

"We wanted to build a model that can be scaled and duplicated with other people," says Swades' cofounder Zarina Screwvala. As Swades touched the lives of over 400,000 people in the last two years, it would have demanded a lot more of Screwvala's time.

Not surprisingly, by October 2013, Disney India was rife with the talk of Screwvala's likely exit. A month later it was public. According to Screwvala, this was a natural progression. "Soon after I took over as MD of Disney India, investing in some interesting companies as a venture capitalist was the only thing I could do, because my focus was on building The Walt Disney Company. However, by June 2013, I realised I was transitioning the thought process and by December I moved out."

## After UTV

Screwvala has dabbled in multiple businesses: from theatre to cable TV to selling toothbrushes and eventually films and broadcast with UTV. No wonder his dilemma after he exited Disney was whether investing in companies was all he wanted to do. "A lot of people told me to chill. But had chilling in the Bahamas been my trait, I would have never become an entrepreneur."

The family took a 10-day vacation in New Zealand during the Christmas holidays of 2013. It was uncharacteristic; Screwvala had believed that a four to five days' break was all one needed to rejuvenate oneself. "Both my wife and daughter were surprised when I said 10 days. But the idea was to step back and look at what I

Watch interview with Ronnie Screwvala at businesstoday.in/newbusiness-screwvala

RACHIT GOSWAMI

wanted to do for the next 20 years."

By the time they returned, Screwvala was clear he could not just sit around and make investments or mentor people. "I was happy with the investments I had made, but that wasn't something I wanted to do forever."

Screwvala's maiden investment after his exit from Disney was in the Pro Kabaddi League, under his company U Sports, in March 2014. He bid and won the franchise rights for the Mumbai team, U Mumba. The investment, he says, was by happenstance. "Zarina was on the same table as Anand Mahindra at an event, and when he talked about kabaddi, she said that was just the kind of thing that Ronnie would be crazy about." Before Mahindra could invite Screwvala to bid for a team, Screwvala had called him and expressed his interest. "[Kabaddi] is disruptive. It is an underdog and there is a brand to be created." That marks it apart from cricket, which is already an established and mature sport.

Mumbai alone has 400-odd kabaddi teams and for Screwvala that was an opportunity staring at him. "The sport is being played by so many people, but it doesn't have the right platform." Screwvala's U-Mumba was the runner's up in the first edition of the Pro Kabaddi League and he is confident that his ₹1.5 crore investment in the franchise will break even this year.

**WE WILL DO ORIGINAL CONTENT AND IT WILL BE A BLEND OF VARIOUS GENRES AND FORMATS"**

**B. SAIKUMAR**
SCREWVALA'S CO-PARTNER IN THE DIGITAL MEDIA PROJECT

Screwvala says the annual revenues in kabaddi envisaged from advertisers, sponsors, broadcast rights and gate sales would be between ₹20-25 crore. "Kabaddi for us will be profitable from this year onwards, which is a record of sorts as till date no league has been profitable from the second season. This is a reflection of the popularity of the sport, as also the right costs model for the game," he says.

Screwvala is, however, already looking beyond U Mumba. U Sports will not be restricted to the Mumbai franchise. Its vision is to groom talent and ensure that kabaddi is played in every street corner.

Hitesh Gossain, former head of the sports marketing arm of Percept Holdings, who has now turned entrepreneur with online sponsorship company Onspon, says the entry barrier in kabaddi is extremely low, especially in comparison with the Indian Premier League, the cricket carnival, whose Mumbai franchise went to Reliance Industries for more than ₹100 crore. "Ronnie's is a very good early-stage investment in kabaddi. Even if the League doesn't take off, the exit won't be that difficult."

Screwvala's bet on kabaddi is already showing early signs of paying off. Pro Kabaddi League's first season, in which U Mumba lost in the final,

drew 435 million television viewers. That is the second-highest viewership for a sporting event after the IPL. And not that far behind: the IPL got 552 million last year.

The kabaddi venture follows the pattern of Screwvala's other investments: invest in nascent, greenfield businesses and scale them up. When he entered cable TV way back in the 1980s, the business was unheard off. In film production, he burnt his fingers with the first, *Dil Ke Jharoke Mein*, a typical Bollywood masala that lost ₹10 crore. But Screwvala bounced back with a successful bet on the off-beat Rang *De Basanti*. *Swades*, another off-beat, was not as big a hit, but drew fulsome praise and established UTV in the top league.

In the same manner, soccer had beckoned at one point. But Screwvala chose not to invest in a franchise for the Indian Soccer League. Instead, he chose to try and build an ecosystem, just like he is trying with kabaddi. His sports marketing arm is now doing a talent hunt. Every year it will send up to 90 children of 12 to 16 years for training to the Bundesliga soccer club in Germany. The hope is that each child, once fully burnished by the German stint, will be lapped up by football clubs across the world. Screwvala's company will make money by managing them.

Why not set up a football academy and charge students a fat fee? "I would have been profitable from day one. But my experience teaches me that if you build a strong team it will complete the picture."

He is prepared to be in the investment mode for the next three to four years, which is how much the training and eventual monetisation is expected to take. If this project succeeds, it will go against the tide. Every league, be it badminton, cricket, basketball or soccer, has been talking about building a grassroots talent ecosystem, but none has done it.

Devraj Sanyal, MD (India and South-Asia), Universal Music, who earlier headed Percept D'Mark, the sports marketing arm of Percept Holdings, says that grooming talent and making it saleable is an expensive proposition. "It could take Ronnie more than five years to be profitable, but considering the rising popularity of football and of course Ronnie's business sense, I am confident it will work."

U Sports is also looking at motorsports and plans to make it a Destination Sport. "We will pick the most exotic destinations in India (Diu/Goa/Pondicherry/Ladakh) and will have bike racing against the picturesque backdrop," says Screwvala, adding that he plans to create and own the league that it would launch in late 2016.

## Team Player

In the first half of his entrepreneurial journey, Screwvala rolled up his sleeves and built his business brick-by-brick. However, in the second innings, his strategy has been to have a partner with a deep understanding of the business. Two of his recent announcements have been U Education and a digital media business called U Digital.

U Education will provide online higher education, especially for working professionals. For this, Screwvala has partnered with Mayank Kumar, Vice President, Bertelsmann India Investment, a venture capital fund that invests in education and the digital sector. For U Digital, Screwvala has partnered with B. Sai Kumar, former CEO of Network 18. "Ronnie sent me a message exactly a day after I quit Network 18. We had exchanged close to 150 intense e-mails before we zeroed in on what we wanted to do on the digital platform," says Sai Kumar.

Neither Screwvala nor Sai Kumar is willing to divulge much. "We will do original content and it will be a blend of various genres and formats," says Sai Kumar, who has roped former COO of Network 18, Ajay Chacko, into the business. Screwvala says he plans to invest close to ₹150 crore in this business over the next three years. The core content will be in Hindi. The plan is to launch in regional languages and also go out of India.

## The Smart Way

The education industry is highly fragmented and unorganised. The country has scores of professional colleges, but the number of employable youth these colleges churn out is negligible. "Less than 20 per cent of students graduating from universities are actually employable. If you double click on that you will realise that universities have not kept pace with the way industry's needs are changing," says Kumar, Screwvala's partner in U Education.

Therefore, U Education plans to

## THE EXPLORER

### Ronnie Screwvala's new businesses

**USPORTS: Owns the Mumbai franchise in Pro Kabaddi League. To send up to 90 kids for training to soccer club in Germany; to make money by managing them. Plans to enter motorsports with bike racing**

**UEDUCATION: To provide online higher education, especially for working professionals, in entrepreneurship, Big Data, and new media, among other segments. Plan to invest ₹100 crore over the next three years in this business**

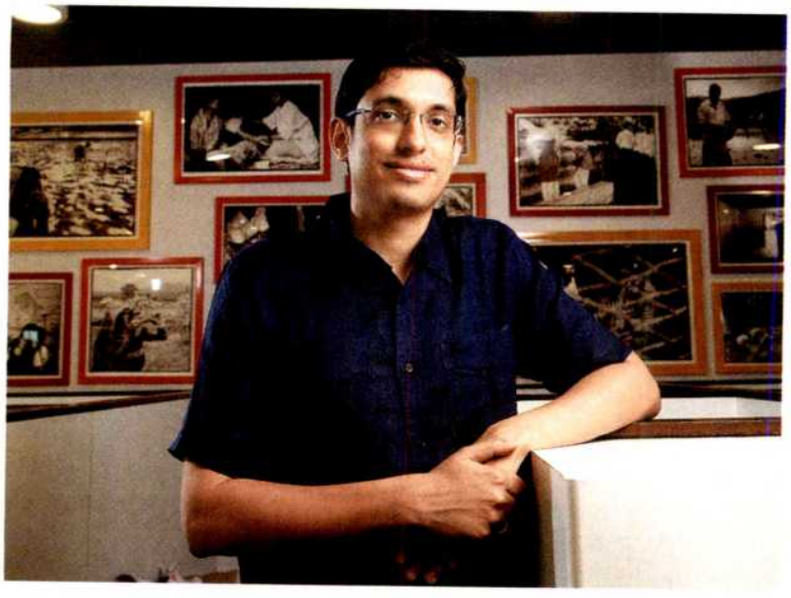
**UDIGITAL: To create and showcase entertainment, news and sports content in Hindi and regional languages. Plan to invest close to ₹150 crore in this business over the next three years**

offer high-quality higher education in entrepreneurship, Big Data, and new media, among other segments, that will make professionals "smarter", and not offer traditional postgraduation courses. It is no secret that MBAs have to often unlearn half of what they are taught at business schools, which is very different from what happens in the real world. That, says Screwvala, was the biggest turn-on for him. "We will enable people to learn practical thought processes."

Digital seemed the smart way to do it. Brick and mortar is capital-intensive as well as limited in reach. U Education, which will partner with leading American, European as well as Indian industries to offer degrees, will enable students to access lectures at their convenience. "In India, a lot of people have a financial compulsion to start earning a little early, which takes away their passion to learn more. Here you can continue to learn at your pace," says Screwvala.

**"UNIVERSITIES HAVE NOT KEPT PACE WITH THE WAY INDUSTRY'S NEEDS ARE CHANGING"**

**MAYANK KUMAR**
Cofounder and MD,
U Education



RACHIT GOSWAMI

Online universities abroad are big businesses. The University of Phoenix in the United States makes $4 billion a year. Coursera has 25 million registered students. But this is India. And Screwvala is talking about teaching people who may consider themselves well-taught already. "Research shows that in India very few people improve their learning curve through online education as the motivation to pursue studies online is quite low. The drop-out rate is extremely high," points out Anustup Nayak, Vice President, XSEED Education.

Though U Education may be the first Indian online university to offer higher education, there is a host of online education companies like Khan Academy and Meritnation that offer classrooms for high school students. They have succeeded in creating awareness for online education in India, but none is profitable yet. The greatest challenge all of them face is that they are not getting enough paid customers.

Screwvala is alert to the challenge, but remains confident of success. He says U Education will charge fee ranging from ₹50,000 for the three-month courses to ₹2 lakh for the annual ones and higher for two-year courses. "Part of our work will be to communicate our training. If we get it right with the first few students who will experience our courses for six months, it will go viral." He plans to invest ₹100 crore over the next three years in this business, and is confident of seeing profits by end of the fourth year.

## Beginner's Luck

Screwvala has absolutely no experience of any of the businesses in which he has invested. He hopes that will work in his favour. "It is like a doctor running his own hospital and an entrepreneur who is not a doctor running a hospital. I was never a football freak, neither was I a Hindi movie freak when I was a studio. I think that helps run a business."

Some of his associates agree. Rajnish Dhall, MD and CEO of Micro Housing Finance Corporation, in which Screwvala has invested, says Screwvala for sure has a fresh angle in every decision they take. "He gets us to think harder about every issue and brings a completely new perspective that none of us would have ever imagined."

For now, little seems to have changed in the way Screwvala lives his life. "I have been someone who has always been on the treadmill and I like it that way."

Will all the running take each of his new businesses to a billion dollars in five to seven years, as he hopes? Let's ask his friends if they believe him. ◆

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Business School **CASE STUDY** TOMS Shoes

**A circle of happiness:** Children wearing TOMS shoes at a distribution event organised by NGO Magic Bus in Jasola, Delhi

# A Shoe for a Shoe, And a Smile

PHOTOGRAPHS BY JOY IT/MAGIC BUS INDIA FOUNDATION

## *EXECUTIVE SUMMARY*

*US-based TOMS Shoes created an out-of-the-box solution to its objective of helping people even while running a for-profit business. The company founded on the principle that it would give away one shoe to a poor child for free, for every shoe it sold. This case study looks at how TOMS Shoes made a cause the centre of its activities, even as the cause itself contributed to its revenues and profitability. And how it used social media for marketing.*

**By AREZO NAEINI, AUDITEE DUTT, JAMES ANGUS, SARKIS MARDIROSSIAN, and SEBASTIAN BONFANTI**

Blake Mycoskie created what can arguably be called a unique business model that combines both for-profit and not-for-profit philosophies. A native of Texas in the US and a serial entrepreneur, Mycoskie was travelling in Argentina in 2006, when he noticed poor children having to grow up without shoes, and facing a lot of hardship in the process. Deeply moved, Mycoskie returned home and founded TOMS Shoes, a company that made and sold, um, shoes of course. But with a twist.

For every pair of TOMS shoes sold, the company would donate one pair to a child in need. This revolutionary concept was called "One for One", and Mycoskie ensured poor children in different parts of the world got the benefit of its business. What made it work even better is the fact that a buyer, typically a young adult looking for an affordable yet cool pair of shoes, would feel good in the knowledge that his purchase has actually helped a poor child get a much-needed shoe for free. The business model worked perfectly, because the cost of the free shoe was built into the price of the one that is sold, making a seemingly charitable effort also contribute to its profitability.

So far, the company's website states that it has provided more than 35 million pairs of shoes to children in 70 countries across the world, and this includes India as well. As long as people continue to purchase TOMS shoes, children in need will receive a pair in return. The shoes that the company designs and sells are based on the Argentine alpargata design.

In later years, Mycoskie expanded the One for One model to other products as well. In 2011, the company introduced eyewear. It followed a similar principle for eyewear as its shoes, but again with a twist. Instead of donating a pair of glasses for every pair sold, TOMS would use part of the

profit from that sale to save or restore the eyesight of a person in developing countries. So far, the company website states, TOMS Eyewear has helped restore sight to more than 275,000 people. Further on, the concept was extended to other product categories as well.

Mycoskie followed the same principle for his book as well – *Start Something That Matters*. The cover of the book states: "With every book you purchase, a new book will be provided to a child in need."

While cause-related marketing is followed by many companies, at TOMS the philanthropic component is critical to the success of the for-profit business. The TOMS business model and its heavy focus on marketing and use of social media is innovative and unique.

## Using Social Media to Tell the Story of TOMS

TOMS offers more than a comfortable and trendy pair of shoes. It is about status and a story to tell. Mycoskie realised the power of the TOMS story since the early days of the company and has focused on it ever since.

Mycoskie wrote in his book, acknowledging Kendall Haven, who authored *Super Simple Storytelling*: "Human minds rely on stories and story architecture as the primary road map for understanding, making sense of, remembering, and planning our lives – as well as the countless experiences and narratives we encounter along the way." He added that smart, future-oriented companies use this ancient impulse in new ways, by telling stories that people can watch on YouTube and share on Facebook.

He quickly realised the strength of social and digital media to convey his story by saying: "People are no longer all listening to or watching the same few radio or TV stations each week – they're following their own carefully curated Twitter feeds, commenting on and creating blogs, channel surfing among more than 500 TV stations, watching Hulu on laptops, clicking on YouTube, reading Kindles and Nooks, and surfing on iPads."

In 2009, Mycoskie partnered with AT&T by filming a commercial, which ran throughout 2009 and was an enormous success. The commercial profiled TOMS as a for-profit company that donates one pair of shoes to a child in need for every pair purchased, and founder Blake who uses his AT&T BlackBerry to conduct business from around the world. Lots of people tweeted about the commercial creating awareness about TOMS and AT&T, and support for the TOMS business model.

## TOMS's Storytellers: Celebrities

TOMS didn't pay celebrities to advertise its products. However, due to the prevalence of photographs in social media of celebrities wearing the company's shoes, it received a great deal of "free" publicity and perceived celebrity endorsements. Many celebrities such as Keira Knightley, Scarlett Johansson, Liv Tyler, Anne Hathaway, Tom Felton, and Julia Roberts became TOMS storytellers by adopting the brand and spreading the story.

Celebrities having a penchant for charitable causes, TOMS Shoes allowed them to help others and look trendy. The photos of these celebrities wearing TOMS Shoes spread on social media sites, which created huge awareness for TOMS.

**All smiles:** TOMS Shoes has provided more than 35 million pairs of shoes to children in 70 countries, including India

Tom Felton tweeted "the @toms shoes come with a bag that says TOMS. that is me all over. and a sticker that says TOMS. I stuck it to my head."

TOMS has certainly benefited from these celebrity endorsements, perhaps more so because of their unofficial nature (which fits well with their brand image), and social media has made the wide reach of this possible.

## TOMS's Social Media Marketing Excellence

In an interview in July 2013, Mycoskie had said: "Our community could be 20 million people on Facebook, if we employed the tactics that a lot of companies do – add mass followers, bribe them with raffles, contests and gifts. But instead, we purposefully kept our community kind of

small, around two million, because that allows us to have a more intimate connection."

It's very clear when you go to the TOMS website, that there is a strong presence of social media links, such as Facebook, Twitter, YouTube, Pinterest, Instagram and Google Plus. Also, it has created a blog to share stories and educate others about TOMS's activities. Mycoskie realised the power of social media, which is less costly in comparison to the traditional advertising and fits better with his business model.

On top of that, many TOMS fans and consumers create their own digital content about their experiences with TOMS products and TOMS initiatives, allowing them to do much of the marketing for the company and spread the story.

## Content Creation and Audience Engagement

TOMS's "One day without shoes" campaign creates awareness on global children's health and education issues. Participants can share experiences and upload images on Flickr and Facebook. Also, TOMS partnered with major companies such as Google and AOL, and created a separate website for it.

One participant uploaded images on Flickr and commented, "I'm going most of the day without shoes since about 740 million people fight hookworm, can't go to school, etc., since they don't have shoes."

A student at Columbia University uploaded her image on Flickr and commented: "It gets people thinking about children in the world, and may be leads someone into a career of helping children. That's the event; it's a simple gesture of wearing no shoes and communicating to people the situations and leading to changing a child's life."

## The Future of TOMS

TOMS is no longer just a shoe company, it has expanded into other areas using its "One for One" business model. A for-profit business with a philanthropic component. The company is also actively looking for people to help them do this by offering grants to people with like-minded ideas.

It is expanding into many categories, including apparels, accessories and tech as well as expanding geographically. To keep the business model sustainable, it is of paramount importance to keep innovating and designing new products that appeal to worldwide consumers. On top of that, TOMS should closely monitor compliance of its activities and keep the promise of One for One.

TOMS's success in using social media in spreading its story and reaching a vast audience could be equally risky to its reputation and the whole business model in case of compliance and ethical issues as well as improper management of social media.

***Key Learnings and Conclusion***

## What Made TOMS a Success?

- Fit between the valued customer and marketing mix (social media). The group that TOMS targets is very active on social media.
- Fit between social cause marketing and using social media; active and socially aware consumers.
- Having an active community that acted as brand storytellers – utilising peoples' people networks on social media.
- Creating awareness, reaching to large audience and geographical coverage through social media with minimal marketing cost.

## What Could Have Been Done Better?

- Global expansion, better retail coverage and partnerships – they could do more in each of these areas and expand the business whilst remaining consistent with the 3Vs (valued customer, value proposition, and value network) that have made it successful.
- Risk of competition – competitors such as Skechers are attempting to move in and replicate the One for One business model. Although TOMS is the first mover, it will need to be careful of other companies aggressively moving in on its key differentiator.

## What Can Other Firms Learn from It?

- Using social media more effectively by having an interactive and evangelistic community rather than having a large indiscriminate user base.
- The power of the social cause and CSR activities being directly linked to the purchase of company products in the for-profit business. Customers feel they are directly driving higher investment in the CSR activities and this is key to the success of this model, and that aspect of it (the direct link from purchase to CSR) could be mirrored in many other business areas.
- Making use of social testimonials, not as a sideline to traditional media but as a more effective way of growing and expanding brand presence through people's social network relationships.

*This case study is from the Aditya Birla India Centre of London Business School*

*What can we learn from TOMS Shoes's business strategy? Post your comments at businesstoday.in/casestudy-tomsshoes*

*The best response will win a Harvard Business Press Pocket Mentor. Previous case studies are at businesstoday.in/casestudy*

# TOMS Must Press Its First-mover Advantage

JASON GOLDBERG

Group Vice President of Commerce Strategy, Razorfish

Toms, fuelled by the One for One programme, is a very successful brand that gets a lot right. But there are always opportunities for improvement.

**One for One Programme:** The programme is the unique selling proposition for TOMS products and is a core part of the TOMS brand promise. Unfortunately, there is nothing proprietary about the programme to offer TOMS a sustainable competitive advantage. Arguably, it would be unethical, or at the very least poor optics, for TOMS to try and prevent competitors from instituting a One for One programme.

As a result, TOMS must continuously press its first-mover advantage to stay ahead of potential competition. There are a number of opportunities to make the One for One programme work harder for TOMS.

Specifically, TOMS has a lot of great content about the people who have been helped by the programme and people that need help, photos of children happily wearing shoes, getting glasses, etc. But this impactful content is effectively segregated from the shopping experience. When you visit the TOMS website, the taxonomy of the site forces you to either "Shop" or learn "How We Give", but the two paths are essentially siloed from each other. If a visitor is reading about how much good the programme does under the "How We Give" link, there is no call to action to take you directly to a product you can buy. Instead, you have to leave this section and visit the "Shop" section. Conversely, if a visitor is shopping for a particular pair of shoes on the site, there are no images or story telling about the benefits of the programme.

> "TOMS was a clever user of social media to cost effectively get its message out"

A live ticker with "35M pairs of new shoes donated to children in need" in the header of the site, including the shopping pages, could serve as a powerful form of social proof to help undecided buyers, who don't happen to drill down into the "How We Give" pages. Similarly, the programme could be much more prominently and consistently promoted in the visual merchandising provided to third-party retailers. Some partners, such as Nordstrom Rack, have no point-of-purchase information about the programme. Even when the store does have One for One signage, it's a simple statement with no imagery or social proof. It is especially important that the programme be emphasised on the TOMS brand pages and on their retail partners' sites, and not solely on product detail pages (as is the case now).

TOMS is very dependent on consumers already being familiar with and trusting in the One for One programme in most of their shopping experiences.

**Social Marketing:** TOMS was a clever user of social media to cost effectively get its message out. But the content marketing approach that TOMS depended upon to build its audience has been substantially depreciated. When social networks like Facebook were building their audience, they were happy to allow brands to publish great content and then have users organically spread that content on their own news feeds. But in recent months Facebook has dramatically curtailed the organic reach of a brand's content. In fact, less than six per cent of the three million users who have liked TOMS brand on Facebook will organically see TOMS content in their news feeds. Facebook now requires sponsored posts in order to reach a meaningful audience.

When consumers are exposed to a TOMS message via social media, there are not strong calls to actions to actually purchase products. Even when you click "Shop Now" from TOMS Facebook page, you are taken to TOMS website homepage rather than an actual shopping page on TOMS, so users will have to do at least three more clicks before they can add a product to their bag. This is simply too much friction.

# TOMS Shouldn't Ignore the Lifecycle Aspect

TOMS has used the 3Vs effectively with little competition. Its Value Customer was relevant in the past, where uniqueness of approach via social media worked well. But there has been enough growth and awareness among brands that want to experiment with social media to reach out to socially aware people. The challenge now is to expand the base of the target group.

TOMS's Value Proposition of functional and emotional again works well, but people grow – the functional need becomes aspirational and emotions change when calamities strike. Take the recent Nepal earthquake that had brands coming out on social media asking customers to buy or contribute and promising to match that contribution. This led to a fair bit of questioning from the younger generation – "If the brand wants to contribute, it should do so, why ask for our help?" So, there is a need to revisit this proposition again.

Its Value Network is strong and there is no reason for it not to continue. However, why restrict it to donating shoes? Isn't it possible to create value in those South American countries by getting things made there, which can then become a self-sustaining for-profit/not-for-profit and help progression of and lend pride to the people who contribute and are a part of it? The strong family culture is good, the values are fine. But families grow, have different thoughts and the parent has to look at how they are allowed to spread their wings.

While TOMS has been successful in product additions – sunglasses, bags – its consideration of the lifecycle aspect of the customer seems to have been low. Ideally, a teen to 40+ should be covered via different approaches and content. A teen or college-goer would be more prone to share content on a variety of platforms in an innovative manner. However, as you grow older, your offline reach becomes stronger and you create content that extends to disproportionate reach. Say, for example, a teen begins with buying a shoe twice a year, shares, engages, encourages five of his peer group to purchase shoes. As she/he grows, the possibility of drifting away remains (say half of the six) and this has to be brought back in via different platforms, products, engagement and sharing. A local offline ambassador programme could help generate content and awareness, in addition to the celebrity endorsements. Remember, on social media everybody is a celebrity in her own right and the influence extends in different directions.

TOMS's work on non-competing alliances also seems to have been slow. Here one does not mean selling of the product but more in terms of reach, engaging socially aware or, more importantly, aware but too-lazy-to-do-something-about-it target groups. Similarly, with a substantial online reach and base, it becomes relevant to focus on offline, low-cost or zero-cost activities that translate into reach, engagement, creation of fresh relevant content from additional target group.

**ANAGGH DESAI**

Cofounder, 1+99, a customer experience design consultancy

"From a like/love status TOMS needs to move towards achieving cult status"

The use of social media for marketing is nice. However, from a like/love status the brand needs to move towards achieving cult status, thereby ensuring competition does not catch up. The cult status is a difficult proposition when only online space is used, given the fickle nature of the beast. The time has come when social media needs to become supportive, unique, testimonial with offline doing its aggressive bit. Competition may move in fast if there is a single differentiator – socially aware target group – but the need is to splice this group into regular, innovative engaging aspects, maybe even flip it around. For example, contribute monthly or weekly for a shoe donation and get your shoe when it is completed. And many more. ◆

# Leaders as Talent Strategists

**Talent is the scarcest resource in business and it's time to invest in the talent economy for growth. Here are four steps to reboot reactive talent agendas**

By GYAN NAGPAL

Economics is an age old science which studies how market forces allocate scarce resources. As a practice, economics has been around for millennia, and as an established social science for a couple of centuries, if not more. So, it is particularly astounding today – a time when many CEOs rate talent as the scarcest resource in business – to see hundreds of organisations still giving in to the temptation of quick fix and band-aid solutions rather than deep economic enquiry as the cornerstone of their talent agendas.

The fact that this is hurting organisational capability is beyond doubt. After observing the amount of time and money invested in the intricate web of processes, programmes and practices parading as the strategic talent agenda, many leaders are waking up to a painful realisation. As far as talent strategy goes, complexity doesn't necessarily mean maturity.

Recent observations, though, show that the tide is changing fast, with a clear symptom being the vast majority of business heads who report a loss of faith in their HR-led talent agendas. For example, in PwC's 17th CEO Survey covering 1,344 CEOs in 68 countries, an astounding 93 per cent "recognise the need to change their talent strategy" with a majority (61 per cent) feeling like they haven't even taken the first step. So, where will the answers come from? Not HR. Barely 34 per cent feel HR is prepared for the challenges ahead. They are right.

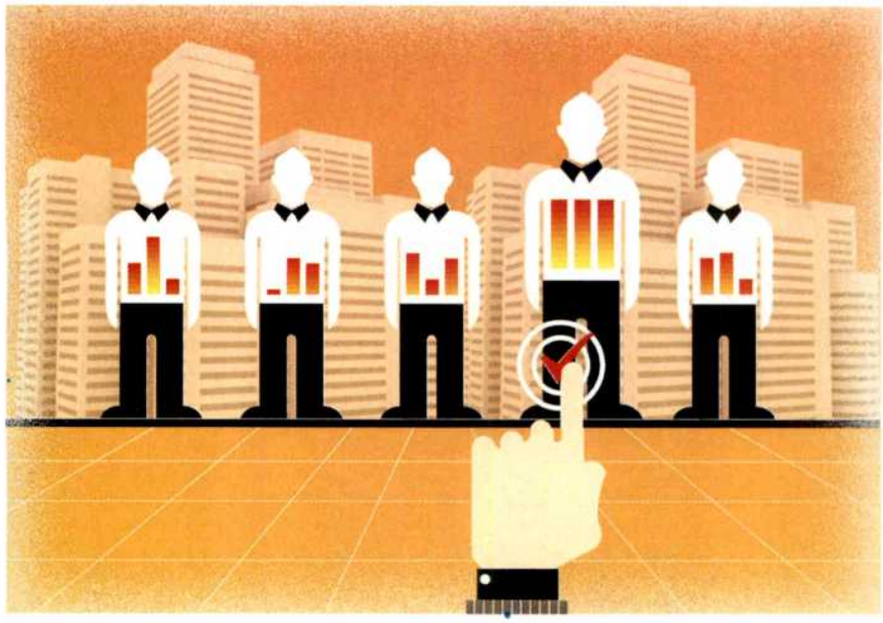
If you are one of the 93 per cent above, I believe there are four steps you must take to reboot reactive talent agendas and transform them into commercial and forward looking talent strategy.

**Discover your talent recipe:** Every business exists within a unique talent context and hence possesses a unique talent recipe. This is, in a nutshell, the ideal mix of internal and external capability you can draw on to grow your business. To find your recipe, you must scan your 36-month horizon and focus on five questions:

- Speed: In our business, can we radically increase access to real-time skills and capability?
- Cost: Can we do so without adding significant fixed cost and overhead?
- Alliances: How can we accelerate internal and external collaboration to deliver the above two outcomes?
- Flow: How can we smoothen the flow of skills and information across this network?
- Flexibility: Will our talent model survive industry downturns and disruptions?

As we can see above, to answer these questions we need to broaden the definition of talent. One of the main reasons we suffer today is that we continue to view talent as a limited con-

Singpaore-based **Gyan Nagpal** is the CEO of PeopleLENS Global Associates, and the author of the best-seller *Talent Economics: The Fine Line between Winning and Losing the Global War for Talent*



RAJ VERMA

struct, dealing with: a small subset of people, a key demographic, a group of very senior or a set of promotable employees. Hence our talent agendas are tactical and limited, too. They are also insular and inward looking. This needs to change, because in its true sense, talent is nothing but "capability which creates economic value". It is both internal and external. Employees are key, but ask yourself, in a technology-driven and rapidly converging world, do you still need 60,000 heads? Do they still need to be all full-time? Is the "binging and purging" of headcount after a couple of good and bad quarters still the smart way to go? Remember, some very smart people who can create immense value for your customers, shareholders and employees sit outside your office walls today. Hence, the five questions above.

Answer them and you [will] discover your future talent recipe. We must keep these questions alive, too, for when the business circumstances change, this

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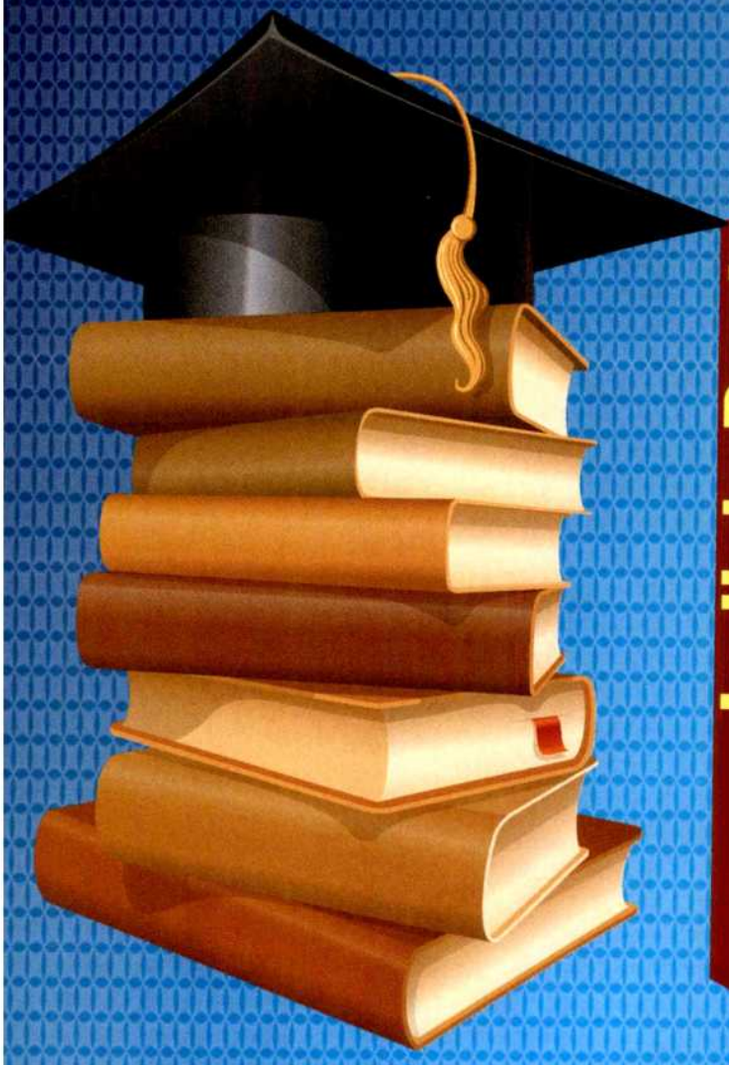

# India's Best B SCHOOLS

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FOR MANAGING TOMORROW

recipe changes, too. And the best way to test your answers to these questions is through deep diagnosis.

**Diagnose:** Once you have an emerging talent hypothesis, you must test it through a diagnostic lens. This will tell you if ready sources for talent exist or will you need to build them. Study both the macro factors – like the demand and supply of capability surrounding your business footprint – and the micro factors – like changing employee preferences. Do consider enablers like technology shifts or outsourced capabilities in the same frame as systemic challenges such as chronic shortages of key skills. Here are some questions to get you started

- What core demand and supply imbalances affect the skills agenda in our industry?
- How can we mitigate these imbalances internally?
- Do alternate sources of contribution exist?
- Three years on, what new or emerging skills will prove core to our success?
- What can we do today to build future capability?

Testing a talent hypothesis is a powerful way to shift focus from internal issues to external opportunities or risks. It also helps hedge against the hire and fire employment tendencies we observe in common practice. By swapping the microscope for the telescope, new ideas emerge. Eventually, a couple of rounds in – you will also ask yourself if you still need roles which don't directly contribute value, or entrenched silos with layers of management for insulation. Or can a very different looking organisation with the same logo deliver better outcomes with greater flexibility, collaboration and speed.

**In modern business, the art and science of management shouldn't be about overseeing an ever shrinking base of internal resources. Instead, it is more about curating capability or contribution across a network of sources**

**Refocus the people managers' role:** The third step is to press reboot on people management practices which are well past their 'use by' date. Our current management toolkit is built of supervisory DNA. It comes from the industrial age, and hence has systems designed for factory shop-floor realities. Overseeing work, driving performance and motivating via monetary incentives are some artifacts of that era that still endure.

The shift from an industrial to a knowledge economy has proven devastating for management. For one, internal or external workers dealing with complex cognitive tasks seek coaches and mentors rather than supervisors and vendor managers. For another, the dispersed, asynchronous and ephemeral nature of intellectual work makes it infinitely more difficult to supervise and control in the short term. And finally, in an age of contemporaneous innovation, flexibility and speed matter more than ever. It is for this reason that we increasingly find managers struggling to integrate effort across the network of alliances, outsourcing relationships, joint ventures or partnerships which form the modern organisation.

In modern business, the art and science of management shouldn't be about overseeing an ever shrinking base of internal resources. Instead, it is more about curating capability or contribution across a network of sources. Welcome to the Open Talent Economy.

So, what is the DNA of 21st century management? When seen from within the immediate team, it is less hierarchical and more democratic. It recognises that for employees not only has the work changed, but the relationship with work has changed too, and that in an age of low loyalty, the only hedge is more honesty. Apart from helping employees find more purpose and meaning in work, the management today is also about amplifying learning, flexibility and employee genius.

But the true area of growth in management sciences is in its perception from the outside. Can it replace "Us and Them" thinking with more collaboration across boundaries? The goal in the open talent economy, is to build, curate and govern contribution networks made up of partners, contingent workers and vendors with real time impact on organisational outcomes.

**Put leaders (not HR) in the driver's seat:** If talent is no longer just about full-time employees, the organisation's talent agenda must invest and grow its talent economy as a whole. The supply of talent, networks of outsourced or contingent work, reskilling and innovating, all form pieces of this talent strategy puzzle. And increasingly, the answers won't come from HR. They come from deep within the business. HR is a powerful function and provides critical value in day to day operations, but it can't do the business leader's job.

What we need more than ever is to see leaders as talent strategists. ◆

# Out-of-box innovation drives IndusInd's growth

***IndusInd Bank's MD and CEO, Romesh Sobti is on a mission to take banking to the next level by focusing on innovation and enhanced customer satisfaction.***

## On a winning streak

Having turned the page of the mundane banking business and successfully turning around IndusInd Bank, Romesh Sobti's now pursuing the next leg of growth by creating size and scale.

When Romesh Sobti took the reins of IndusInd Bank as managing director in early 2008, the whole banking system was reeling from the devastating Lehman Brothers financial tsunami. Sobti's challenge then was not merely to steer the bank back onto a high-profitability course but also to navigate one of the worst financial crises in its history.

## The challenges

Truly, it was a baptism of fire for him and his team of four key executives who had joined him after his stint at ABN Amro Bank. Nevertheless, they focused on the job at hand, steering the bank through the subsequent tempestuous turbulence. Sobti began by evaluating profitable and niche areas of the bank's lending verticals, carving out a retail franchise space, re-capitalising the bank so as to increase its lending activities, and utilising technology to drive new products and services for customers.

## The solutions

For a bank to sustain profit growth, its key focus areas are good and low-cost liabilities on the balance sheet. As cash is the raw stuff of banking, this requires pulling in fresh customers—both individuals and corporate bodies—to make their home with the bank. Sobti focused on building technology to drive customer acquisition by distinguishing offerings, adding enhanced features and providing differentiated solutions such as scanning cheques on statements, and enabling customers to withdraw from ATMs without a card.

## The results

His strategy has paid off—in spades. IndusInd Bank has, over the years, improved its low-cost current and savings accounts from around 15 percent in 2008 to around 34 percent now, resulting in expanded Net-Interest Margins and profitability over the years.

## The thrust

In fact, leading into the next leg of growth, Sobti is focusing on consolidating scale and size through a steady branch network expansion, which has broadened from 600-odd branches in 2014 to more than 800 in 2015, while its ATMs now number 1,487 (from 1,110).

## The details

Over the course of the ongoing financial year (2015-

16), IndusInd Bank plans to add another 200 branches – and raise its CASA ratio from 34 to 38 percent in the next three years. In the increasingly-competitive banking arena, augmenting current-account balances will not be easy. But Sobti is readying to take up the challenge and believes that through differentiated products, IndusInd Bank can raise that bar even higher.

### ACQUISITIONS TO STRENTHEN PRODUCT SUITE

Deutsche Bank's credit card division
Back in 2011, IndusInd Bank acquired Deustche Bank's credit card business and marked its entry into the credit card business significantly enhancing its suite of products to customers.
Royal Bank of Scotland's diamond and jewellery business
Just recently in April 2015, the bank acquired Royal Bank of Scotland's Rs 4500 crore diamond and jewellery financing business. This will compliment IndusInd Bank's existing business and further enhance its specialization in this business segment

## Key changes

Over the years, some of the key changes that Sobti has initiated have been to strengthen the brand, to support a product and customer segmentation. Toward this end, the bank has launched some appealing advertisements that enable customers to easily grasp—and connect with—the bank's innovative products and services.

Sobti has also been rebalancing the loan mix over the years and strengthening operations in corporate and commercial banking by broadening products for corporate bodies and selling a complete suite of products to its corporate customers. Also, the bank has strengthened its risk-management practices.

It has steadily been scaling up its presence as a "Universal Bank", catering to both corporate and retail segments equally. One of its key distinguishing features is its strong, 25 percent, loan-book growth to around Rs 68,788 crore, way above the industry growth rates. In the loan book the corporate and retail mix, at 51:49, is well-balanced between the two segments.

## Comprehensive product suite

Sobti has been a firm believer in the fact that a bank has to offer a comprehensive product suite for all clients, enabling customers to want to return to the bank for more business. Hence, Sobti has not shied away from offering third-party loan products such as HDFC's home loans wherever it has not been as profitable to come up with products in-house.

## Strategic acquisitions

But, wherever possible, and if Sobti sees a good niche segment that it can capitalize on, IndusInd Bank has been quick to grab an asset when available. It recently acquired the Royal Bank of Scotand's diamond and jewellery financing book, worth approximately Rs 4500 crore. A few years ago, it acquired the credit-card business of Deutsche Bank to expand into the cards segment, where it was not yet operative.

Sobti feels that assets may not be so easy to acquire in future; instead, he believes in generating scale and size in existing businesses by being the dominant top-two or -three operators in each sub-segment without compromising on profitability.

In fact, the new goal of the management is to build on a 3D strategy—to Diversify, Differentiate and Dominate. Judging by the way things are going for the bank, that mantra should take it to the top echelons of the Indian banking sector.

### WAY AHEAD IN INNOVATION

***Harnessing technology, IndusInd Bank has been providing ground-breaking services to customers***

**Banking through video**
This allows customers to connect with a branch manager, relationship manager or a centralized video branch executive through video calling facilities – and conduct banking transactions face to face with a bank representative, all with the convenience of one's handheld devices (Android 2.2 or higher, and Apple iOS 6 and higher). One can easily conduct transaction such as open a fixed deposit or recurring deposit account, transfer funds through NEFT, RTGS, and many, many more services.

**Choose your own account number**
If you want a bank account number that reminds you of your spouse's birthday or that you consider your own lucky number, IndusInd Bank's My Account, My Number is up for grabs. This is a first-of-its-kind in the banking sector: customers can choose their own account numbers.

**Customised Chelsea credit card**
One can have your own preferred card image on IndusInd Bank's Chelsea Credit Card, which also offers high reward points, and 10% off on Chelsea FC online megastore for all football fans

**Track cheques**
Through another unique feature called Check-on-Cheque, one can keep a record of all cheques issued. Individuals can get copies of cheques through net banking, IndusNet or through bank statements – with the signatures masked.

**Notes of your choice**
Also, IndusInd has introduced a Choice Money ATM Service by which individuals can choose notes of different denomination (of 100, 500 or 1,000 rupees) at IndusInd Bank ATMs. And this service has been offered also to non-IndusInd Bank customers.

## *"We will acquire assets only if they add value to us" IndusInd Bank's MD and CEO, Romesh Sobti*

**IndusInd Bank has come a long way from 2008. What are your top priorities for the bank now having been re-appointed as MD & CEO?**

We have transformed and scaled the Bank successfully over the last 7 years. We have built an institution over this period and I am excited by our prospects as the economy recovers. Personally I am energized to deliver on the next 3 year innings now that the age bar is out of the way. Our top priorities include doubling loans, branches and customers over the next 3 years. We want to dominate some segments of Vehicle Financing, differentiate through digitization which has become a central theme, diversify into new retail asset classes and build a strong brand.

**Innovation has been one of you key strengths when it comes to retail segment. Tell us how has been the impact of this on your retail and CASA deposits? And how it has been helping gain more retail customers?**

We have rolled out innovative products on a regular basis with the primary aim of finding, engaging and serving customers. This feeds into our retail and CASA deposits. The ability to choose your lucky number bank account has been a hit. Called "My Account My Number," nearly 20% of our monthly customer acquisition of 60,000 comes through this route. We have launched a first in market Video Branch that enables "face to face" banking; for customers to access bank staff for most banking transactions over a smart-phone or computer. We are seeing customers downloading this app at a rapid pace. For those using this service regularly we are seeing a deepening of their account balances. So we are working on increasing the numbers and also deepening the balances. We will deliver more such first to market innovations to delight our customers. Our CASA is growing between 25% and 30%.

**What are the key new initiatives you have launched for the corporate customer? How are you balancing the slow demand for credit in this environment?**

We have made significant headway in our corporate businesses. Sector specialization has been added in select industries. A profitable investment banking practice is now high up in the league tables. Our inclusive banking group provides microfinance and is growing in leaps and bounds. There are a number of growth initiatives in Global Markets and Transaction Banking. We acquired the RBS N.V. Diamond and Jewellery business recently and this portfolio will transition in the next couple of months. We are responsive to client needs and deliver solutions ahead of market. Within the corporate lending environment we are largely a working capital player which has been less impacted by the slowdown. Our Corporate advances grew 33% in FY15. The retail side of our business which had slower growth in FY15 will pick up this year and we will have both engines firing in FY16.

**IndusInd Bank has done better than the industry on the loan growth front. What are the key areas of focus for the bank in terms of loans in the coming years?**

We continue to grow well ahead of industry growth. In FY15 our loan book grew 25%. We expect our retail business to start growing faster than the corporate business in about two quarters. This shift comes from the expectation of an accelerated recovery in vehicle financing, notably commercial vehicle financing. We have also built a sizeable non vehicle retail book that is growing nicely. So in addition to our credit card, business banking and loan against property businesses we have rolled out several new products. These include rural loans, business loans, personal loans, gold loans and loans against securities all of which will chip in this year. The shift towards a faster growing retail book will be supportive to our net interest margins.

**How will a fall in interest rates affect the bank given that overall the banking industry is witnessing slowing credit growth?**

Fall in interest rates seems to be manifesting with improved growth prospects. This could lead to a very beneficial period for Banks. Lower rates will also support investment and retail consumption spending. The bond portfolios of banks will be more profitable. With lower inflation savers will still get real returns. Specific to IndusInd Bank we would expected to realize higher net interest margin on the back of lower cost of funds and a vehicle financing book that is fixed rate in nature.

**Which areas in banking do you see IndusInd Bank yet to catch up with its peers and how do you plan to tackle those?**

We are a universal bank so play in most areas. We don't necessarily want to catch up in scale; we certainly want to be top of the heap in profitability. One area where we were handicapped was the ability to raise financing overseas through bond issuances or follow the footprint of domestic customers as they internationalized their businesses. Our handicap was the absence of an overseas branch license which has been pending for quite some time. Recently the Reserve Bank of India has formulated a scheme to set up International Banking Units and we believe this will present an opportunity to catch up with some larger peers and become even more

relevant to our wholesale and retail client bases.

We are amongst the leading innovators in the digital banking space and you will see us apply models for different client segments, use of social media for marketing, app based mobile solutions, online stores both direct and through partners, real time analytics and decisioning and virtual channels like the Video Branch.

**New bank licenses have been given out. Payment banks are soon going to be a reality. Is this not going to increase competition? How will it impact IndusInd Bank?**

The two new bank licenses are not materially in our space. One is an infrastructure lender and the other a microfinance institution. No licenses were given in the middle. New licensees will take 5-10 years to build some scale. Small bank licenses may get announced soon and we expect some of these to be existing NBFCs. Payment banks can be joint venture partners or business correspondents for mainstream banks and there will be some dependency on each other in addressing the un-served and underserved banking markets. New licensees of all hues will address some of the biggest challenges in the Indian economy i.e. infrastructure, micro finance and financial inclusion and only serve to grow the banking market. We welcome this. We already have a large micro finance book, are building a project finance expertise within our investment banking team and are looking to partner with one or more payments banks or business correspondents.

IndusInd Bank

FACE TO FACE BANKING
WITHOUT GOING TO YOUR BANK

VIDEO Branch

•Fixed Deposits
•Funds Transfers
•Credit Card Payments
•Door Step Banking
•BM/RM Call Back and many more

# STRIKE UP

**Buying a fitness band will be based on your individual needs. Here's a sneak peak into Xiaomi Mi Band and Goqii. Take your pick.**

By NIDHI SINGAL

Wearables, including smart watches and smart clothing, could well be on your list of must-haves, but they come at a premium. But, if you want to test the waters with something affordable, smart bands could well be your choice. They have witnessed tremendous growth in sales, and users are not only happy with the design offerings, but also in terms of user experience and value proposition.

# A BAND

## Stay on track

Fitness bands, or smart bands, are a great way to live healthy. These compact and light-weight wrist bands can count the number of steps and analyse sleep patterns. Some even have advanced features that allow you to consult an expert, key in your food intake and monitor your heart rate. They have embedded sensors, electronic monitors and an accelerometer at the core. The apps are unique to each smart band, which may or may not come with displays.

## Band with the best

There are several smart band options to choose from and it might cost you anything between ₹999 and a few thousand bucks. While Fitbit and Jawbone, the pioneers, are at the forefront of the smart band technology, other brands are not far behind. Samsung Gear Fit, Timex Ironman Move x20 and HTC Grip, for instance, are constantly rasing the bar with responsive, innovative and nimble technology solutions. Here we will compare two of the most popular and reasonably-priced bands.

**Xiaomi Mi Band:** The Mi Band is not flashy but does the job brilliantly. The water-resistant, hypoallergenic band does not have a display, but comes with three light indicators to help you monitor your activities. You will have to install the Mi Fit band, available on both iOS and Android platforms, and create an account before you can start using it. Key in your details, including gender, weight, height, and also mention whether you would like to put it on your right or left hand. The band is activated as soon as you strap it to your wrist. If you remain idle for long, it would interpret it as sleeping time and process the information accordingly. Every movement is analysed with the help of the app to throw up a host of activity-related data, including the number of footsteps, distance walked, calories burnt and your sleep pattern. It can also keep a count of sit-ups, crunches or skips during a gym session.

The Mi Band provides an easy-to-understand format to analyse data. It notifies you about incoming calls, acts as an alarm and also works in the vibration mode. The data collected by the fitness band is near accurate. It has a proprietary charger (unique to the brand and model) and you will not have to worry about charging it every day. Xiaomi's flash-sale model, however, makes it really tough to lay your hands on an Mi Band.

**Goqii:** This is not just a fitness band. It comes with smart service. When you buy a Goqii for ₹3,999, you get a smart-looking fitness band with three months of subscription. The subscription is key to healthy living as every Goqii user is assigned a personal coach who interacts over the app. Once you download the app and register, it asks you a few questions about your lifestyle, medical condition, allergies, and your goals, before directing you to choose a coach. Once you key in the details, the coach welcomes you on the messaging service at the dashboard followed by a good 10-20 minute call to discuss your lifestyle, preferences and challenges to get started. The app is comprehensive and allows you to log your food and fluid intake details. The coach keeps track of your daily routine and then guides you accordingly. For instance, my coach pushed me hard to increase my water intake and increase my footsteps from 10,000 to 15,000. He or she also motivates you to improve your eating habits. In case, you are not happy with a coach, you can always register with a new one. Overall, the experience of using Goqii was rewarding. Goqii has a Karma point feature that translates your activity to Karma points, which can be donated for a social cause. The battery backup of the Goqii sensor is seven days, depending on the number of times you sync it with your phone using Bluetooth. It, however, has a few glitches. The Mi Band's tracking sensor and sleep monitor were far more accurate. The Goqii requiers you to manually turn on the sleep mode. However, the interactive sessions with the coach drives you to achieve more with this device. After the subscription is over, it is up to you whether you wish to renew the subscription or not. ◆

VIVAN NAYAK

# Clearing the Air

INDOOR AIR PURIFICATION MADE EASY WITH AEROGUARD CLEAN AIR GLO FROM EUREKA FORBES.

**By NIDHI SINGAL**

Indoor air purifiers work well but are usually expensive. The Aeroguard Clean Air Glo from Eureka Forbes is an affordable LED bulb with built-in ionizers, which, the company claims, eliminates smoke, odour, and airborne allergens while creating a healthy environment.

The Clean Air Glo is a 5W LED bulb with a wick sitting on the top of the bulb's dome. When the LED is turned on, the wick starts releasing negative ions in the air. This starts pushing particles (with foul smell and allergens, among others) having positive charge to attract and stick to each other before disintegrating slowly. The terms negative and positive here works in a reversed way. Technically, negative ions are odourless and have an extra charged electron. This technology helps clean the air and is used in several other air purifiers.

While testing, I installed the LED bulb at various places, including the washroom, kitchen and at my bedroom. The Glo was successful in eliminating foul smell, making the air odour-free. After using it in the washroom for over a week, when I replaced it with a regular LED, I could feel the difference as there was foul smell in the air. Even when I used in the kitchen, it eliminated smoke within a short duration. It, however, works only when the bulb is turned on. Ideal for small-sized rooms, the Aeroguard Clean Air Glo manages to clean the air in around an hour. It can be installed at any regular bulb holder.

The 5W LED with built-in ionizer is available in Cold White (5500-6500k) and Warm White (2700-3500k) variants. Interestingly, it is far more bright in comparison to regular 5W LED bulbs. According to Eureka Forbes, the LED's lifespan is about 10,000 hours. ◆

**BAG IT OR JUNK IT:**

An affordable air purifier for small rooms that works well

**PRICE:** ₹1,390

**PLUS:** Compact size, price

**MINUS:** Works well only in small areas

# No Big Leap

BLACKBERRY'S NEW ALL-TOUCH SMARTPHONE, THE LEAP, IS A MIX OF ITS OLD DEVICES.

**By NIDHI SINGAL**

After launching the Classic with the traditional QWERTY keyboard, BlackBerry has again introduced an all-touch phone, the Leap.

The Leap has a five-inch display. Its design seems to be inspired by the company's Z3 device. It has a textured back and its back cover is non-removable. The slots for the memory and SIM cards are placed on the side panel. The power key on the top is easy to reach and the phone is comfortable to hold. While the 720p display is low according to industry standards, the text on the 4G-enabled device is crisp.

It is powered by a 1.5Ghz dual-core Qualcomm Snapdragon processor with Adreno 225 GPU and is paired with 2 GB of RAM. Overall, the phone's performance is good. But not everything is great. The phone comes with 16 GB internal storage, which is a fourth of what you get on Xiaomi Mi 4 and OnePlus One for almost the same price.

**BAG IT OR JUNK IT:**

A no-nonsense device for BlackBerry fans

**PRICE:** ₹21,490

**PLUS:** BlackBerry Hub, Battery

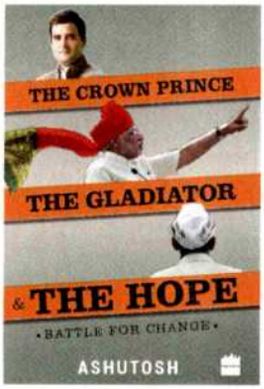
**MINUS:** Apps

The 8 MP rear camera is good and snaps images quickly. But I wasn't impressed with the 2 MP front-facing camera. While the Leap has access to two app stores – BlackBerry World and Amazon Appstore – Google apps are not pre-installed. The onscreen keyboard is smooth to type on. It has a host of security features and a Meeting app to host quick meetings on the phone itself. The biggest leap this device has made is an all-day-long battery – my review unit, with continuous push notifications and long call sessions, survived a day without requiring me to hunt for the charger or a battery pack. ◆

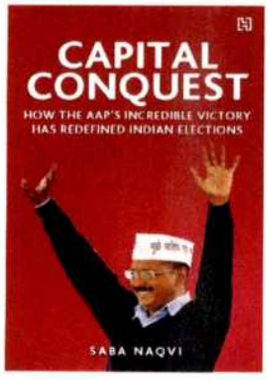
*@nidhisingal*

# A New Brand of Instant History

## Two books on the AAP experiment – while riveting – suffer from being too close to the subject. By SANDIP GHOSE




***The Crown Prince, The Gladiator & The Hope: Battle for Change***
**By Ashutosh**
PAGES: 360
PRICE: ₹211
HarperCollins India




***Capital Conquest: How the AAP's Incredible Victory Has Redefined Indian Elections***
**By Saba Naqvi**
PAGES: 208
PRICE: ₹499
Hachette India

The year 2014 was, perhaps, the second major watershed in post-Independence India's political history after 1977. For many political scribes of the current generation it will probably remain as the most memorable year of their career. That many of them would, therefore, feel the urge to chronicle it as 'instant history' – spawning a new "Read My Book" genre of Indian journalism – is quite understandable. Both Ashutosh's and Saba Naqvi's books can be broadly classified under this category.

The first, by Ashutosh – the journalist-turned-activist-politician and AAP leader – has a wider sweep covering Narendra Modi's incredible run to the Prime Minister's office and the parallel narrative on the rise of AAP and Arvind Kejriwal. It is a recap of events as they unfolded over 15-odd months and is surprisingly well written.

Ashutosh is candid in admitting he conceived the book as a journalist but by the time he finished it he became a politician. Not surprisingly, the lines do get blurred in-between. In a way, it is also Ashutosh's own journey from the sets of TV studios to the amphitheatre of politics. To his credit, Ashutosh doesn't try to hide his political leanings and the fact that he became personally close to Kejriwal much before he joined AAP. On occasions he would even advise them on how to tackle tricky media issues. This, of course, raises the question of how Ashutosh was able to maintain his objectivity. Ashutosh's description and analysis of the transformation of Chief Minister Modi to Prime Minister Modi is riveting. Of course, it would be unrealistic to expect a balanced perspective – but it is for us readers to take it with a measure of salt as per one's (political) taste.

If Ashutosh is an 'inside-out' account of how AAP evolved within the larger political churn in the country, Naqvi could have easily named her book *The Short Official History of AAP* or *The Authorised Political Biography of Arvind Kejriwal*. Right from the start it is abundantly clear that the 'idea of AAP' had captured her imagination as did Kejriwal's charismatic leadership. At the same time, she makes no secret of her deep distaste for whatever the BJP under Modi stood for.

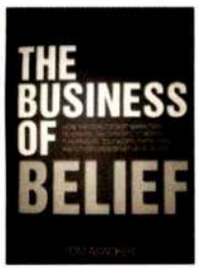
Naqvi calls it a "Reporter's Book" and no doubt she assiduously followed AAP's evolution at every step. Through this journey she developed strong links with members of AAP's core team from whom she could glean intimate details of the party's inner workings. But, in doing so it might appear she dropped her guard and has been too uncritical in her assessment. Outside of AAP she plays back very few voices of other political denominations – certainly none which are critical of AAP or Kejriwal. She quotes a few anonymous sources (mostly of the BJP) but only to buttress her own views. One would have expected a conscientious reporter to dig a little deeper into the controversies surrounding AAP's funding. Equally, like Ashutosh, her accusations of collusion between big business (alleged to own half of Indian media) and the BJP/Modi are a bit sweeping. She talks about Kejriwal taking on the rich and the powerful (read Ambani and Adani) but is silent about the lack of follow-through.

She is a tad too generous in saying Kejriwal combines 'Gandhian piety' with 'pragmatic solutions'. Only time will tell if AAP, which she says is still a 'work in progress', can redeem its promise of alternative politics, just like Ashutosh's question, which very few would dare to ask: How long will Modi last in his chair ? ◆

*The reviewer has worked in the media industry and has a keen interest in politics and current affairs. Follow him @SandipGhose*

# *Companion for Life*

## An impactful book on beliefs not just for business people, but for everyone. By GIRAJ SHARMA




***The Business of Belief***
**By Tom Asacker**
PAGES: 121
PRICE: ₹295
Westland Ltd

Of the most compelling books that are around, some influence you to the extent that they leave a deep imprint and even change the way you are. And some books can be your companions for life – you can leaf through their pages on a lazy weekend or late on a cold night by just opening up any page to get your fill of assured stimulation. *The Business of Belief* is of the companion variety – a short book that will stay with you for long.

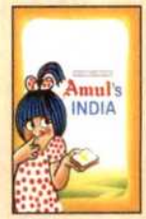
Defining beliefs as nothing more than working assumptions on the basis of which we make life's most trivial and most meaningful decisions; there is no denying that conceptually 'belief' is an incredibly difficult concept to wrap our heads around. Significantly, beliefs touch every aspect of our lives, from mundane to profound. And that's the fundamental architecture of author Tom Asacker's discourse here. Asacker has written four books earlier, but this one has the potential of being his most impactful work to date. Picking up on 'belief', Asacker establishes it to be the pivot of our thinking, attitude, reactions and actions. This book is about how the world's best marketers, designers, salespeople, coaches, fundraisers, educators, entrepreneurs and other leaders get us to believe. How they practice the business of belief?

This, however, is a book for everyone and not just people in business. The author structures the edifice of his arguments in three clearly defined sections – *What They Know, What They Do* and *What You Can Do*. He makes the case that there is a strong possibility of our beliefs becoming fossilised. He goes on to proclaim that such beliefs will continue to seduce us to 'our ways' and that our minds will become protected by layers of fat that we refer to as experience. And we shall land up rationalising our habits of dealing with the world – doing the same things over and over again till we leave everything that we have been doing and open our child-like eyes to the realities of the world. He supports his postulates such as this one and others with quotes from other thought leaders and achievers. The narrative is conversational and the tone is not preachy – which, in the context of the choice of the subject of the book, makes it distinctive and easy reading. Even when Asacker puts forward a strong argument that's suggestive – the tone is subtle though the intention is firm. Such is his own belief! ◆

*The reviewer is the founder director of brand consultancy firm BehindTheMoon, and conducts workshops on Optimism. Follow him @HiOnMoon*

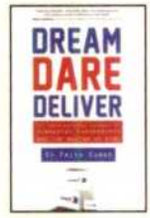
## *Amul's India: 50 Years of Amul Advertising*

THE FORTNIGHTLY PICK

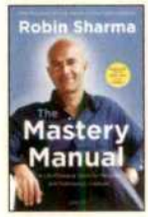



By Da Cunha Communications
Collins Business
Price: ₹299
The 2015 updated edition of Amul's India tells the story of the 50 years of Amul advertising campaigns.

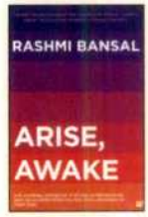
## BUSINESS BESTSELLERS*




*Dream, Dare, Deliver^*
By Priya Kumar
Embassy Boooks
Price: ₹495

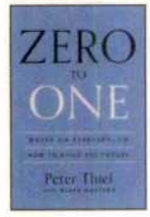



*The Mastery Manual*
By Robin Sharma
Jaico Publishing House
Price: ₹199




*Arise, Awake*
By Rashmi Bansal
Westland Books
Price: ₹200

*Dream with Your Eyes Open*
By Ronnie Screwvala
Rupa Publications
Price: ₹500




*Zero to One*
By Peter Thiel
Random House
Price: ₹499

*Top books by sales for April 26 to May 9, 2015; includes only books released after April 1, 2014;
^Publication date: June 3, 2015;
Information provided by amazon.in

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**2COMS Consulting Private Limited**
Business Head - MM
**Location:** Kolkata
**Job ID:** 16875401
**Description:** Full profit and loss responsibility of entire B2B business in India.

**KRM Global**
State Head - Operations
**Location:** Bhopal, Chennai
**Job ID:** 16871653
**Description:** To manage all post sanctio related activities (except accounting) for loans.

**ABC Consultants Private Limited**
Chief Reservoir Engineer/Head Sub Surface (GM/Chief )
**Location:** Noida
**Job ID:** 16883733
**Description:** Lead the team of Geologists, Geophysicists and Reservoir/Petroleum Engineers with specific emphasis on enhancing the yet to be developed 2P reserves, production and establish the exploration potential.

**Carlton Resource Solutions**
Hod - Mechanical Design
**Location:** Thane
**Job ID:** 16849543
**Description:** Specification for Rotar Equipment e.g Pumps, Compressors, turbine for Hydrocarbon services.

**Right Connect**
VP / Business Head
**Location:** Mumbai
**Job ID:** 16885417
**Description:** Business Head is responsible for overall profit center for Mumbai Location.

**Vitasta Consulting Private Limited**
Senior Manager - Business Process Solutions
**Location:** Bengaluru / Bangalore
**Job ID:** 16841980
**Description:** Ensuring the completeness an accuracy of various monthly MIS reports an sending the same to the clients on time.

**Quotient Consultancy**
Cluster Head / Regional Manager
**Location:** Mumbai, Thane
**Job ID:** 16854276
**Description:** Recruiting & managing a team of 100 through branch networking Bombay and sourcing employee with the DM/DST background.

**VCentric Technologies Private Limited**
VP-Sales
**Location:** Hyderabad / Secunderabad
**Job ID:** 16838553
**Description:** Responsible for overs performance and profitability of the sal division of our company.

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MS SQL Database Administrator
**Location:** Chennai
**Job ID:** 16885192
**Description:** Looking for MS SQL Database Administrators.

**Cigniti Technologies Limited**
Test Manager
**Location:** Hyderabad / Secunderabad
**Job ID:** 16867005
**Description:** 8-10 years supervisory or management experience leading/managing team/project.

**RS Consultants**
QA Automation Developer – Selenium / JMeter
**Location:** Pune
**Jobs ID:** 16816745
**Description:** At least 5 years of total experience in QA and testing with the last 2+ years in using and programming Selenium and JMeter on Linux. development and support.

**Cyient Limited**
Team Leader/ Technical Leader
**Location:** Hyderabad / Secunderabad
**Job ID:** 16836243
**Description:** Should have 8+ years experience in leading and managing the team and work as a SPOC for the customer.

**IMSI India Private Limited**
Desktop Support Engineer
**Location:** Pune
**Job ID:** 16842451
**Description:** Desktop Support, Installation, Troubleshooting and Configuration of Operating system etc.

**Polaris Financial Technology Limited**
AngularJS-C# Dot Net Developer
**Location:** Pune
**Job ID:** 16799328
**Description:** Strong AngularJS-C3# Dot Net developer experience along with HTML5,CSS and Jquery.

**Hexaware Technologies Limited**
MS BI Developer/Team Lead
**Location:** Chennai
**Job ID:** 16853732
**Description:** Looking forward to hire MS BI Developer/ Team Lead (SSRS/ SSIS/ SSAS/ SQL) consultants.

**iQuest Management Consultants Private Limited**
Mobile Webapp Developer
**Location:** Mumbai, Navi Mumbai
**Job ID:** 16887010
**Description:** Expert Knowledge of different capabilities of different platforms (Android, iPhone, Windows) and browsers.

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**Sampoorna Computer People**
Marketing Manager
**Location:** Pune
**Jobs Id:** 16881847
**Description:** Website Maintenance: Keep the website fresh with events, updates and blogs, Digital Marketing: SEO optimization, FB Page updates, LikendIn etc.

**CitiusTech**
Marketing Manager
**Location:** Mumbai
**Jobs ID:** 16809361
**Description:** Supports and enhance corporate branding (incl. defining corporat branding guidelines, consistency o logo/usage) and branding for key CitiusTecl solutions – BI-Clinical, Register4Health, etc.

**CozmicSol**
Marketing Executive
**Location:** Delhi
**Job ID:** 16880660
**Description:** Regular follow up with all the new list of house hold and converting the warm leads into super warm leads.

**Amazon Development Centre (India Private Limited**
Production Designer (Digital) / Visu Designer
**Location:** Bengaluru / Bangalore
**Job ID:** 16682339
**Description:** Design beautiful and engagin advertising creative for the world's leadin advertisers, Understand usability principle that help drive successful design etc.

**Angel Broking Limited**
Relationship Executive
**Location:** Chennai, Coimbatore
**Job ID:** 16215540
**Description:** Acquisition of New Clients, Selling Investment product like Demat A/c, Mutual Fund, PMS, LI.

**Cygnus Staffing Solutions**
Sales / Marketing Manager
**Location:** Hyderabad / Secunderabad
**Job ID:** 16636872
**Description:** Identifying and appointin agents, retailers, institutions, and distributor Mapping potential Markets etc.

**TeamLease Services Private Limited**
Marketing Operations Specialist
**Location:** Bengaluru / Bangalore
**Job ID:** 16858537
**Description:** This role will be a point of contact for Marketing Operations Support for country Marketing Team/s based in Asia Pacific Japan.

**Cybage Software Private Limited**
Business Development Executives
**Location:** Pune
**Job ID:** 16886926
**Description:** The job responsibilities involv market research and presales activities, Lea Generation (Owning the leads) an enhancement of database quality etc.

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**Career Avenues India Private Limited**
Senior Manager Accounts
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**Job ID:** 16883817
**Description:** To co-ordinate and lead the team of Branch Accountants vis-à-vis accounting functions of the region assigned.

**UnitedHealth Group**
Senior Manager - Finance
**Location:** Gurgaon
**Job ID:** 16871482
**Description:** Selling, General and Administrative Expenses (SG and A), management of reporting and analysis etc.

**WNS Global Services Private Limited**
Accounts Payable / Receivable & General Ledger
**Location:** Mumbai, Thane
**Job ID:** 16741528
**Description:** Candidates should have worked upto finalization of accounts or assisted in finalization.

**Ikya Human Capital Solutions Private Limited**
Financial Analyst
**Location:** Bengaluru / Bangalore
**Job ID:** 16879345
**Description:** Looking for candidates with excellent communication and written skills.

**Tesco Hindustan Service Cente**
Manager- Internal Audit
**Location:** Bengaluru / Bangalore
**Job ID:** 16833990
**Description:** Having full or part accountability for 5 to 6 financial and/or operational audit each from planning to reporting and follow up on agreed actions.

**Juniper Networks Inc.**
Accountant 3 - Accounts Payable
**Location:** Bengaluru / Bangalore
**Job ID:** 16833270
**Description:** The person should have a background of working in an ERP environment (SAP) with strong Accounting background and SOX Compliance.

**Symphony Teleca Corporation India Private Limited**
Assistant Manager - Finance
**Location:** Bengaluru / Bangalore
**Job ID:** 16650620
**Description:** Responsible for day to day book keeping of legal entities operating outside India and there monthly reporting's.

**MSCI Services Private Limited**
FPA Analyst
**Location:** Mumbai
**Job ID:** 16881576
**Description:** Support the business initiatives of the assigned Business Unit by providing both proactive and reactive financial insight, analysis and perspective.

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## Comeback Queen

She is the ultimate comeback heroine. Whenever political pundits have written her off, **JAYALALITHAA JAYARAMAN** has managed to bounce back from the brink. The AIADMK supremo is set to return as the Chief Minister of Tamil Nadu after the Karnataka High Court cleared her of charges in a disproportionate assets case. The state's industry will be hoping that the decision-making process, which had ground to a halt since September 2014 when she had to step down, will now be fast-tracked, especially as analysts now expect state elections, due next May, to be advanced.

VENKATESHA BABU

**J. Jayalalithaa**
Ex-CM, Tamil Nadu

## A Tory MP's Indian Connection

When **RISHI SUNAK** was nominated from the Conservative (Tory) party as a candidate for the largely rural Richmond seat in the UK, his win was a foregone conclusion. The seat had been a traditional Tory bastion held earlier by party grandee and former foreign secretary William Hague. Sunak's victory, coming amidst a record 10 PIOs (People of Indian origin) getting elected to the UK Parliament, would have been unremarkable, except he is also the son-in-law of Infosys founder N.R. Narayana Murthy. Akshata, Murthy's daughter, married Sunak in 2009 and her 0.89 per cent stake in Infosys is worth nearly ₹2,000 crore. Sunak and Akshata met while studying at Stanford. A third-generation British Indian, Sunak, who is also a businessman, was quick to acknowledge the support of his wife and in-laws in his success.

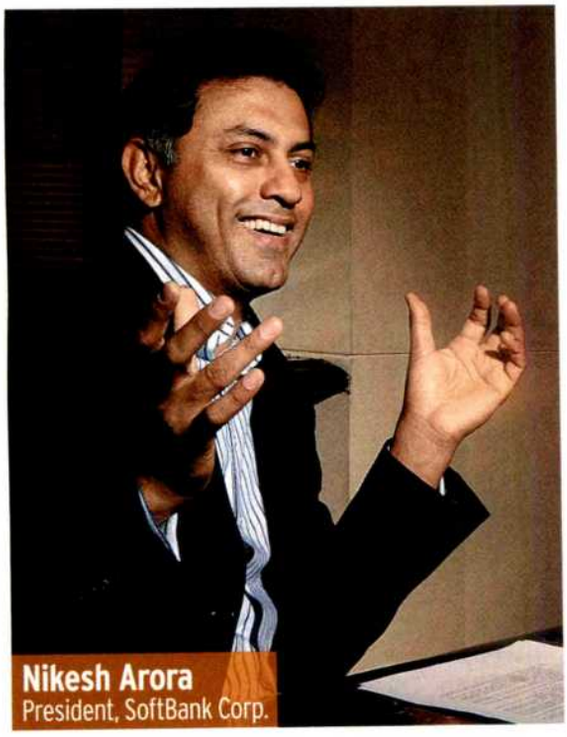
VENKATESHA BABU

**Rishi Sunak**
MP, Conservative Party, UK

## Mr Bankable

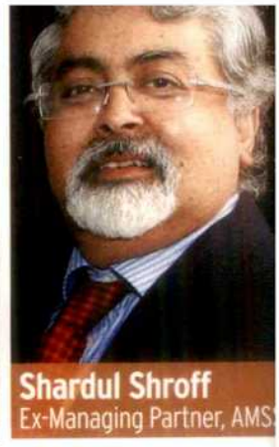
Last year when **NIKESH ARORA**, a high-profile senior Google executive, was lured by Japan's SoftBank Corp.'s billionaire entrepreneur Masayoshi Son, it was clear he was marked for great things. Just nine months later, Arora has been elevated as President of the company and Son indicated that he was his potential successor as CEO. The move comes amidst SoftBank's efforts to turn around its $20 billion acquisition of Sprint, a US telecom carrier. Arora is a decade younger than Son and with SoftBank's increasing investments and interests in India, he will be a good fit.

VENKATESHA BABU



**Nikesh Arora**
President, SoftBank Corp.

**Cyril Shroff**
Ex-Managing Partner, AMSS



**Shardul Shroff**
Ex-Managing Partner, AMS

## Separate Ways

After the Mukesh-Anil Ambani and Rahul-Shishir Bajaj battles on family wealth and assets in courtrooms and later settlements out of court, another stand-off between two high-profile brothers has come to an end. Amarchand and Mangaldas and Suresh A. Shroff and Co. (AMSS), India's largest law firm, has been split into two, following an out-of-court settlement between the brothers, Mumbai-based **CYRIL** and Delhi-based **SHARDUL SHROFF**, after a year-long court battle. The dispute had its origin when their mother Bharati Shroff, the largest shareholder in the 98-year-old firm, left her entire wealth and assets to elder son Cyril as per a will made in 2012 and later amended in 2014. Shardul questioned her wish in the Bombay High Court last year. Bharati passed away last year. On May 11, Shardul launched his new firm Shardul Amarchand Mangaldas, based out of Delhi.

ANAND ADHIKARI

## India's New Brand Ambassador

Another feather has been added in the cap of veteran banker **KUNDAPUR VAMAN KAMATH** as he becomes the first head of the proposed BRICS Bank. Kamath, 67, will preside over funds worth $100 billion to finance the infrastructure needs of emerging economies. His appointment is significant as India itself needs huge investment support to build its infrastructure. Based in Shanghai, the Non-executive Chairman of ICICI Bank and Infosys will now be dealing with different governments. Says V. Vaidyanathan of Capital First, who has worked with Kamath closely: "Kamath is a lateral and high level thinker. He has the ability to straddle multiple conflicts with great grace. So, he is best placed to set up the institution."

ANAND ADHIKARI

**K.V. Kamath**
Head, BRICS Bank

DANESH JASSAWALA

See interview with Madhukar Kamat at businesstoday.in/ddbmudra-kamat

# "The DDB Mudra Group Is a Work in Progress"

RACHIT GOSWAMI

In a conversation with **Ajita Shashidhar**, DDB Mudra Group's CEO and MD **Madhukar Kamat** talks about his company's transformation from an Ahmedabad-based advertising agency to a globally aligned communications company. Excerpts:

***Can you take us through DDB Mudra's journey?***

Mudra's story can be broken up into decades. The first one was from 1980 to 1990, when we were born in an unconventional centre – nobody expected an agency from Ahmedabad to become a national player. By the end of the decade, we were among the top five ad agencies. We grew on the back of Vimal, Rasna, Dhara and Godrej. Vimal was our first client...

***You have done two stints with the company. Can you tell us about your first stint?***

We were driven by the famous line of Walt Disney, which was adopted by our founder Chairman A.G. Krishnamurthy: "If you can dream it you can do it." Mr Krishnamurthy played a phenomenal role in terms of picking up several of us. He was always in the background encouraging us to grow. The encouragement I got to grow the Delhi branch was incredible. Delhi, by the end of that decade, accounted for 60 per cent of the business in Mudra. We set up Mudra Diversified, forayed into direct marketing and PR... I was fortunate that Mr Krishnamurthy picked me up to go to the DDB offices globally – in Chicago, London and New York.

***What was the third decade (2000 to 2010) like, when you actually took over the company's reins from the founding Chairman?***

It was the decade of transformation because the business had changed, Mudra had grown, reached a certain stature. We had won several accolades, so what next? I remember taking over in 2003. I was fortunate that I had stayed out for four years... I had viewed Mudra from the outside and I had also been part of its meteoric growth... I was able to arrive at a decision which said that it is time to transform Mudra from being an advertising agency to being a communication group. We created a structure where Mudra was split into four distinct agencies... At the end of the transformation decade, the shareholders of Mudra and Omnicom (which acquired Mudra in 2011) agreed to look for the best opportunities to grow Mudra, and how does it become part of an international network...

***What's next for the DDB Mudra Group?***

I sincerely believe that when you are building organisations and institutions it is best to let the result speak for itself, rather than announce beforehand. So, I am not making any announcements as to what we are going to do next. All I can say is that year on year you will see the building up of the group DDB Mudra is. So, today, if you ask me what are we, the group is a work in progress. ◆

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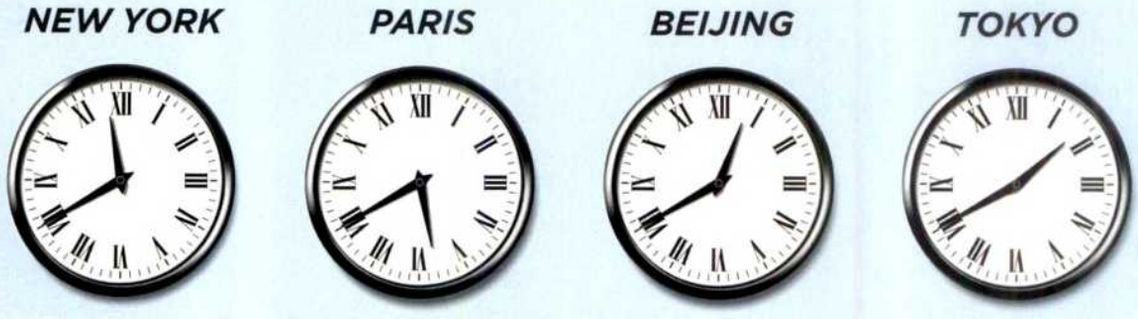


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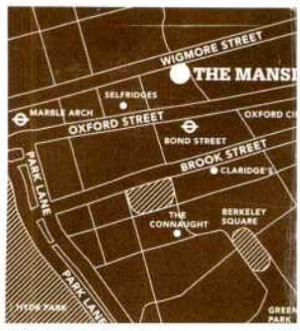

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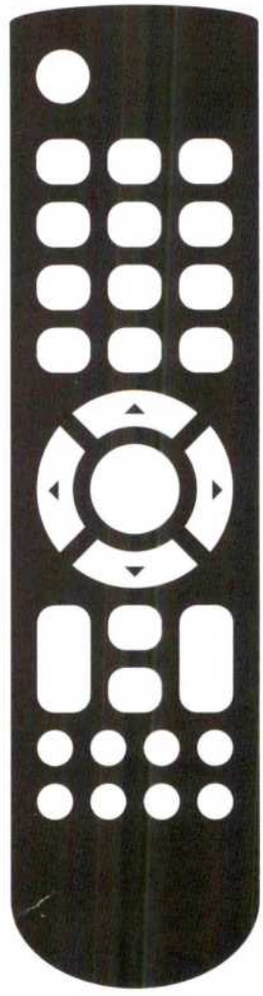

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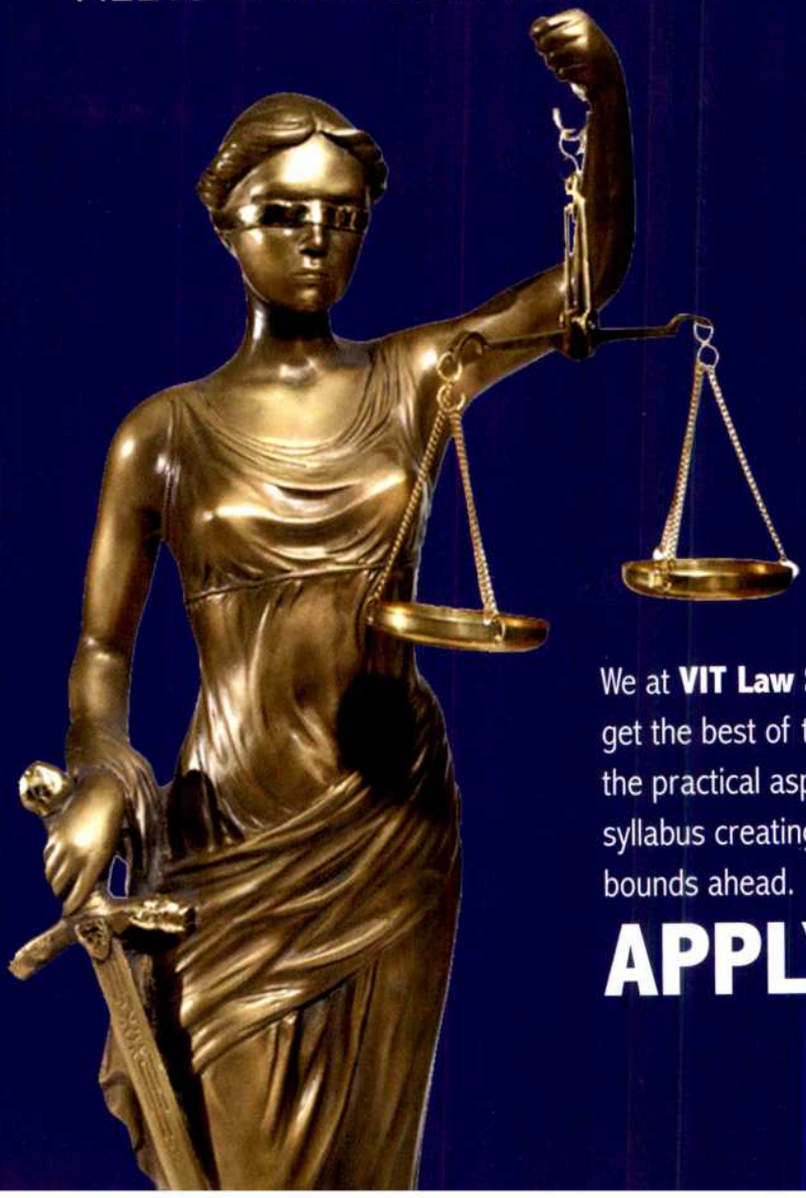

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# From the Editor

# The Age of the Entrepreneur

Never before have entrepreneurs and entrepreneurship in India been as feted and funded as we are seeing today. This is particularly true for technology start-ups and entrepreneurs. A recent report said that venture capitalists poured in $1.35 billion in 69 deals in the first quarter of this year alone. This amount did not include funds that had flowed in seed-funding and angel-funding rounds. Nor did it capture funding in start-ups in the non-technology sectors.

In fact, there are several Indian start-ups today that have achieved a $1-billion or higher valuation. Flipkart and Snapdeal rank among those. Flipkart today is valued far higher than all the companies of Kishore Biyani's Future Group put together. And Biyani is the big daddy of organised physical retail.

While e-tail grabbed the attention of most venture capitalists early, it is by no means the only area throwing up exciting start-ups. When we asked for applications for our annual exercise to identify India's Coolest Start-ups, we received applications from diverse areas. Among the winners of this year's exercise is a start-up in the area of digital education and another which makes collaboration software.

With the amount of funding flowing into start-ups, especially early-stage technology start-ups, there is inevitably some fear that we are approaching another bubble. Critics point out that start-ups that do not have a proper revenue model, and which are largely burning cash to build up brand recognition instead of operations, are getting insane amounts of funding. They also point out that the kind of euphoria surrounding the tech start-ups in India currently was last seen in the heydays of the first dotcom boom – and just before the crash.

To a certain extent, they are correct. Quite a few highly funded start-ups that have spent enormous money on branding will inevitably run out of cash one day – and will close down. A lot of me-too ideas will also vanish after a few years. One or two high-profile failures can easily turn the sentiment and bring about another crash.

However, I do believe that while a lot of start-ups will fail – and that is the nature of the start-up game – the ones that succeed will have changed the rules of the game forever. And they will have revolutionised entire industries. They will also show the path for future entrepreneurs, just as the success stories of the original dotcom era have inspired the new breed of entrepreneurs.

The Coolest Start-ups survey was a true team effort. Alokesh Bhattacharyya led the exercise, and Taslima Khan, Goutam Das, Venkatesha Babu, all helped make it a success. The research team of Jyotindra Dubey and Niti Kiran helped make the back-end process robust and did due diligence on the applications. Of course, the winners could be identified only because our jury panel – Sharad Sharma of iSPIRT, Padmaja Ruparel of Indian Angel Network, T.C.M. Sundaram of IDG Ventures India, and Sanjeev Aggarwal of Helion Venture Partners – spent hours debating each entry to find the best ideas and teams.

Prosenjit Datta

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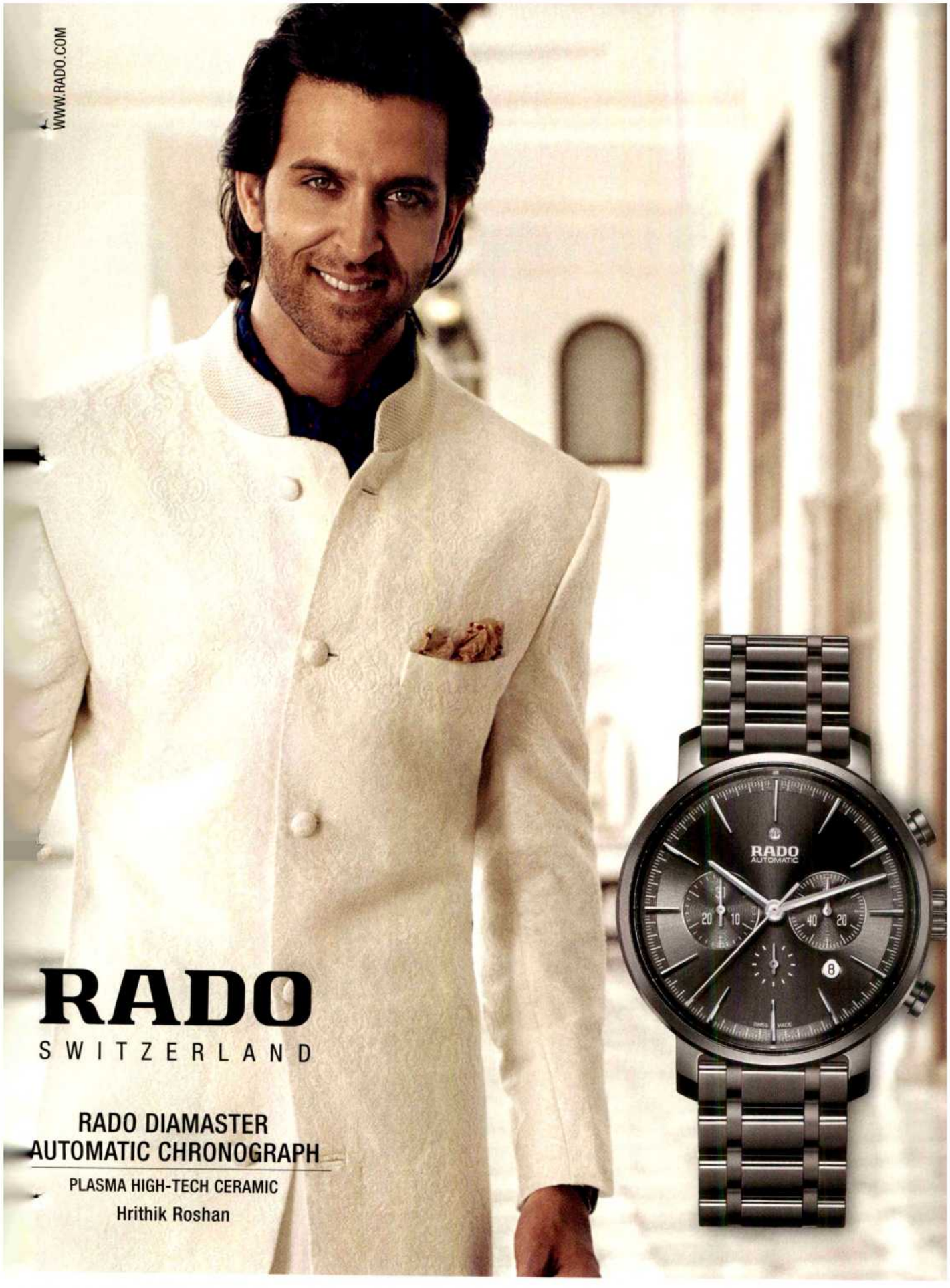


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# Re: Letters to the Editor

## Future Safety?

This refers to your cover story on Future Group (*The Rebirth of Kishore Biyani*, June 7). Thanks to the *Business Today* team for bringing out a well analytical story. Mere recasting the strategy won't take the group to the top as competition intensifies from other retailers. Moreover, the meteoric rise of e-tailers has posed an enormous threat to the brick-and-mortar retail business. And in this cut-throat competition between the e-tail and traditional retailers, whether Biyani's strategy is enough to outsmart rivals, only time will tell.

**Abhinav P.**, *New Delhi*

## TOMS Strategy

This refers to your case study on TOMS shoes (*A Shoe for a Shoe, and a Smile*, June 7). From my experience, it is amply clear that a company normally sells it for almost double the price. Hence, TOMS's "one for one" strategy is not a losing proposition at all since the company is still making some profit. So when TOMS sells a pair of shoes, it can afford to give a new pair of shoes to an impoverished child, and when TOMS sells a pair of eyewear, it can still afford using a part of the profit to save or restore the eyesight for people in the developing countries. It is reported that as of 2012, TOMS has given away over one million pairs of shoes in 40 countries. All said and done, Blake Mycoskie's company has deservedly won many awards. Kudos!

**J.S. Broca**, *New Delhi*

## Callous Attitude

This refers to your feature on child labour (*Invisible Hands*, June 7). The callous attitude of the Indian society is obviously betrayed in exploiting the children, who constitute 39 per cent of the population. The constitutional guarantees on various platforms, like prohibition of child labour; compulsory education up to 14 years, including the right to education; social development initiatives; and Indian ratification of related Articles of different UN bodies, including the ILO, remain only on paper. For instance, the children who are furling the beedi leaves in Tirunelveli, make crackers in Sivakasi or spin hosiery in Tirupur are robbed of their normal life. Let us build a strong nation of vibrant people and leave a wonderful legacy to these children.

**B.Rajasekaran**, *Bangalore*

## Provide Free Schooling

We cannot stop child labour unless we provide free schooling. The government should provide free education to all children up to Class 10.

**A.M. Dayal**, *Hyderabad*

*Send all your comments to:* editor.bt@intoday.com

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**Maggi controversy shows Indian consumers are taken for granted.**
Carmakers are also taking customers for a jolly ride - they sell models without basic safety features and don't pass crash norms.
- **Virendra**, *@viren56002*

**Adani's Australian coal mine project faces new legal hurdle.**
Prime Minister Modi can save him in India, but who will listen to him in Australia?
- **Arnab Gswami**, *@Arnabgswami*

**Make in India should not entirely focus on global market, says RBI chief Rajan.**
Valuable idea. Except for new technology, existing products won't be marketed inside India as built-in protection! - **Sivaraman Srikantan**, *@sivaramyes*

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JUNE/21/2015
VOLUME 24/NUMBER 12

Coolest Start-ups

PHOTOGRAPH BY VIVAN MEHRA

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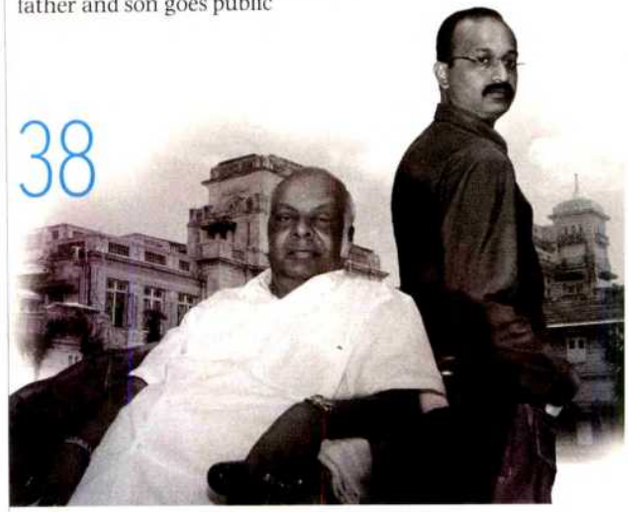

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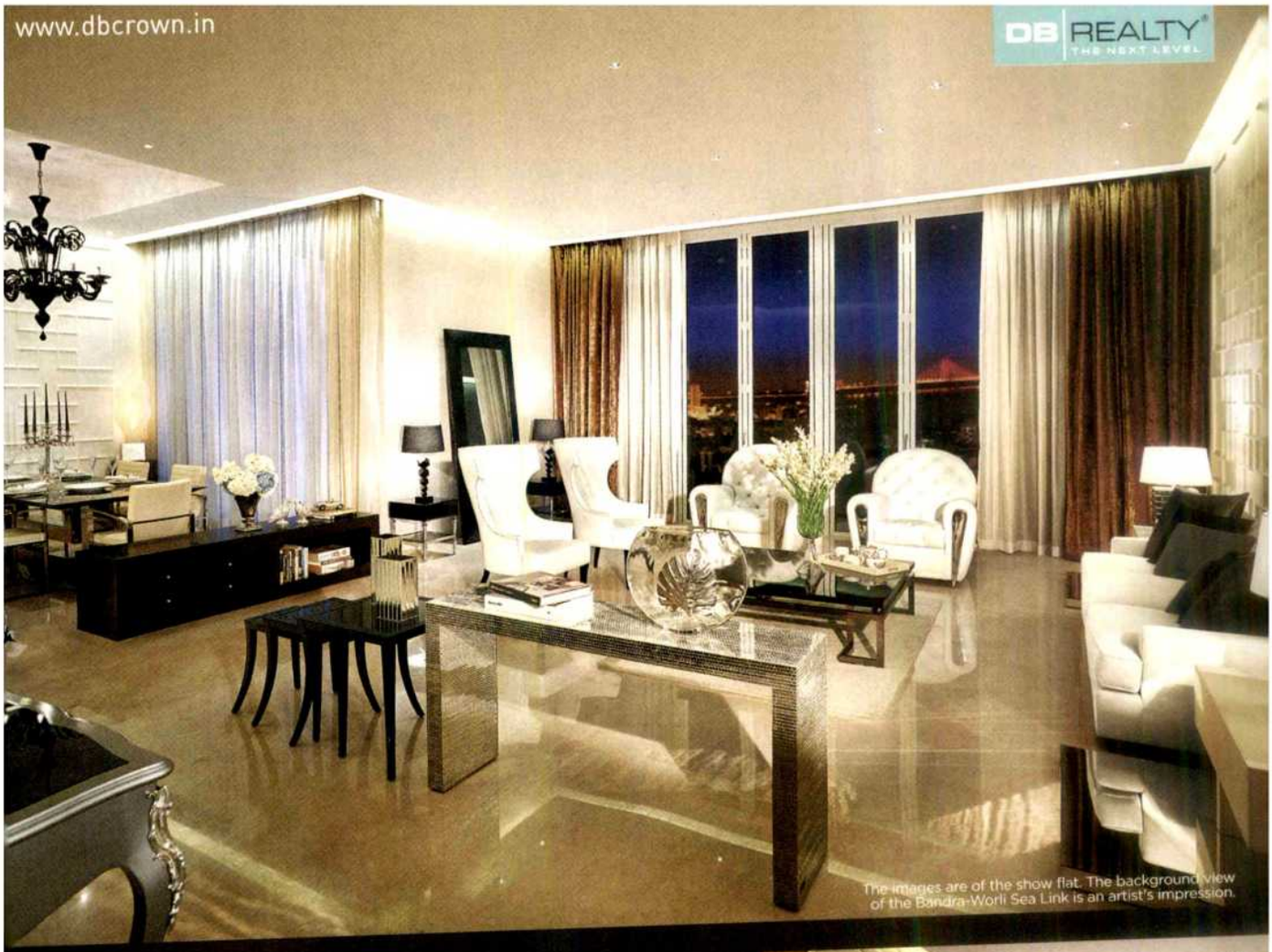

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**INTERVIEW**

**"Projects should pick up in the next six to 12 months"**
ThyssenKrupp's India MD, Sivasubramanian Natarajan, tells **Anilesh S. Mahajan** that his group is upbeat about Prime Minister Narendra Modi's economic roadmap.
businesstoday.in/thyssenkrupp-natarajan

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businesstoday.in/maggi-msg

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businesstoday.in/impact-investing

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# "They are violating the law in spirit and in letter"

Kishore Biyani questions the rationale for allowing e-commerce companies to raise foreign capital, in an interview with *The Economic Times*. The online marketplace model, he says, is little more than accounting jugglery.

## "I have regretted every second since I said OK"

Woody Allen is not happy making a television series for Amazon, reports the *Financial Times*, quoting an interview in the *Deadline Hollywood* news site.

The series, for Amazon's streaming service, announced in January, was seen as evidence of Amazon's growing influence in media production.

## SONSHINE

Rishad Premji, son of Wipro Chairman Azim, has joined the group's highest decision-making body, the group executive council, reports *Mint*. Rishad, 38, is now on the decision-making body of every company in the group: software services firm Wipro Ltd, and two unlisted companies.

As Samsung Electronics Chairman Lee Kun-hee remains bedridden after a heart attack, son Lee Jae-yong, 46, is set to become chairman of two family foundations. These foundations hold small stakes in various Samsung companies that allow the Lees to control the group despite owning only a few per cent of it, says *The Economist*.

## ₹16 LAKH

The amount Santadevi Meghwal's family has been fined by the Rohichan Khurd village council in Rajasthan, reports Reuters. The fine, which comes with ostracism, is for Meghwal's refusal to accept her marriage. She was married when she was an 11-month-old baby to a village boy who was nine years old. Now 19, Meghwal learned of this marriage three years ago but refused to go and live with her husband. She wants to study and become a teacher.

**1**

Samsung's position in China's smartphone market a year ago

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Apple's position in China's smartphone market a year ago

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Apple's position in China's smartphone market now

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## DESPERATELY SEEKING FTA

**WHAT:** India-EU FTA Talks
**WHEN:** June

**WHAT TO LOOK FOR:** Trade Minister Nirmala Sitharaman will meet her counterpart EU Trade Commissioner Cecilia Malmström in a bid to break the deadlock over the long-delayed free trade agreement. India is seeking greater flexibility in the movement of skilled professionals, without restrictions such as their experience in the field. India also wants the EU to declare the country data-safe, which will help Indian information technology and outsourcing companies. India may be willing to accommodate demands to lower tariffs for automobiles, wines and spirits.

6 - 7

## BANGLADESH BECKONS

**WHAT:** Modi visit to Bangladesh
**WHEN:** June 6-7

**WHAT TO LOOK FOR:** Prime Minister Narendra Modi is expected to flag off a third bus service between the two countries connecting Bangladesh capital Dhaka with Shillong in Meghalaya and Guwahati in Assam. West Bengal CM Mamata Banerjee will accompany Modi on the visit where the two countries are likely to sign a land boundary agreement and may discuss a water-sharing pact.

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## TRADE TALKS

**WHAT:** WTO trade ministers' meeting
**WHEN:** June 4-5

**WHAT TO LOOK FOR:** The meeting of trade ministers of key World Trade Organization member-countries, on the sidelines of the Organisation for Economic Co-operation and Development meeting, will discuss the pending issues of the Doha round and finalise the agenda for the Nairobi ministerial meeting in December. India will bring back issues related to the long-stalled Doha Round including agriculture (export subsidies, cotton and fishery subsidies), market access and services.

5

## OIL ECONOMICS

**WHAT:** OPEC Meet
**WHEN:** June 5

**WHAT TO LOOK FOR:** The Organisation of the Petroleum Exporting Countries (OPEC) is unlikely to implement a production cut at the meeting, according to Iran's Deputy Oil Minister Rokneddin Javadi. Iran, along with Venezuela, has called for OPEC to cut output to shore up low prices. Javadi's comments signal that the group is unlikely to agree to a reduction, especially after its current strategy has succeeded in curbing non-OPEC output and allowed OPEC to regain market share. OPEC, led by Saudi Arabia, decided in November to maintain output and keep global markets amply supplied so that low prices would force high-cost US shale oil producers to cut output.

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# FOCUS

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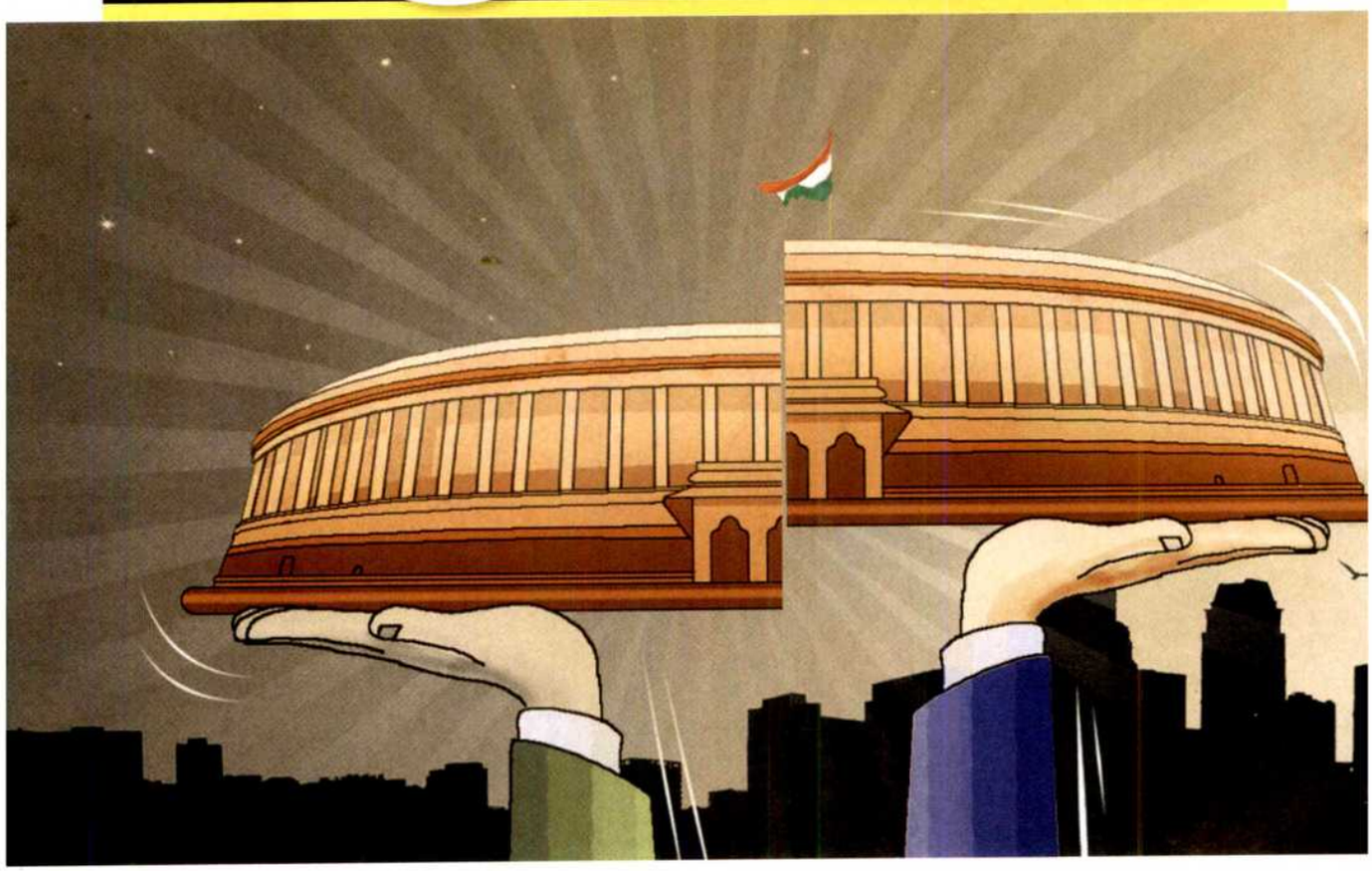

# Lords, and the People

**Time to debate whether Rajya Sabha should have power to veto bills passed by Lok Sabha. By ANILESH S. MAHAJAN**

A day after the budget session of Parliament ended, Union Finance Minister Arun Jaitley triggered a debate by questioning the powers of the Rajya Sabha to veto the bills passed by the Lok Sabha. Jaitley, who is also the Leader of the House in Rajya Sabha, said it was a serious issue in a parliamentary democracy because the wisdom of a directly elected House was being repeatedly questioned by the indirectly elected House.

During the winter and budget sessions, opposition parties had joined hands to take the government head on in the Rajya Sabha, where the NDA has only 60 members (45 BJP members plus allies) in the 243-member House. On the other hand, the ruling party enjoys an overwhelming majority in the 543-member Lower House with 282 mem-

bers of its own and 51 from alliance partners.

Jaitley was primarily reacting to the opposition stalling the government's attempt to clear certain amendments to the Foreign Contribution (Regulation) Act, 2010 (FCRA), Securities Contracts (Regulation) Act, 1956 (SCRA), Foreign Exchange Management Act, 1999 (FEMA) and Prevention of Money Laundering Act, 2002 (PMLA), along with the finance bill and the black money bill, by tagging them as money bills. Rajya Sabha Chairman Hamid Ansari was quick to informally warn the opposition to stay vigilant and not entertain such "liberal interpretations" of the money bill.

AJAY THAKURI

According to law, the Rajya Sabha does not have the power to block a money bill once it is cleared by the Lok Sabha.

The Indian parliamentary system is indeed going through an interesting phase. For the first time since 1984, it has witnessed a single-party majority in the Lok Sabha. But as the numbers in the Rajya Sabha do not add up in favour of the BJP, life is increasingly becoming difficult for the ruling dispensation. For example, on the last day of the session, eight bills, including bills on the Goods and Services Tax (GST) and land acquisition, were sent to select committees of the Upper House after they failed the Rajya Sabha test.

If things go well in the upcoming assembly polls and the NDA can win a few seats in Uttar Pradesh, Bihar and West Bengal, it may reach a tally of 100 members by 2019. The ruling dispensation can then be at an advantage in a crisis situation by calling a joint session of Parliament, as they will have 394 members against a combined strength of 786 members. However, constitutional amendments, such as the GST Bill, cannot be passed through a joint session and the BJP has to bank on its floor managers to stitch up the numbers in its favour.

The Narendra Modi-led government has promised several economic reforms, but to get the bills passed they will have to do better in the Rajya Sabha. This is where the question raised by Jaitley becomes pertinent: should Rajya Sabha members question the wisdom of those in the Lok Sabha? In the Lower House, none of the opposition parties has a strength of 10 per cent to even be constitutionally considered as an Opposition, yet their representations at the Upper House gives them the power to thwart the government's attempts to bring in certain important reforms. This obviously leads to frustration for the ruling combine. But, should the government look at constitutional remedies to circumvent this hurdle?

In fact, this question is not being raised for the first time. It was raised before the constituent assembly passed the resolution to adopt a bicameral Parliamentary system on July 28, 1947. Arguing for the second chamber, Congress leader Narasimha Ayyangar Gopalaswami Ayyangar – who was later appointed as the leader of the Rajya Sabha and also donned the railways minister's hat in the Jawaharlal Nehru cabinet – argued that the Upper House can act as an 'instrument' to delay action on a hastily-conceived decision, through debates and discussions by 'seasoned people with an amount of learning and importance', something that we do not ordinarily associate with a House of the People.

This argument loses its relevance today as those who are blocking reforms are seasoned politicians who want to score brownie points. They say the government is pushing the amendments 'hastily' and are bulldozing the opposition with the numbers they have in the Lok Sabha, and forcing their way through ordinances. One must, however, remember that not all Rajya Sabha members today are seasoned people with an amount of learning, but are representatives of political parties who had failed to win during the 2014 general elections (including Jaitley, HRD minister Smriti Irani, leader of Opposition Gulam Nabi Azad, and JD (U) leader Sharad Yadav) and, hence, defeat Ayyangar's argument.

**NOT ALL RAJYA SABHA MEMBERS ARE PEOPLE WITH AN AMOUNT OF LEARNING, BUT ARE POLITICIANS WHO FAILED TO WIN ELECTIONS**

India had inherited its parliamentary system from the British and it was loosely based on their Parliament Act, 1911. Since then, the British have undergone several phases of reforms. In fact, in the recently concluded general elections in the UK, there was debate on reform measures for their upper chamber, the House of Lords. The points discussed echo Jaitley's views: The House of Lords cannot veto bills that a majority had promised in its manifesto. India adopted the British system when the constitution was formed, now should it consider overhauling the parliamentary system? Certainly, both Jaitley and Modi would have liked it if Ayyangar and his colleagues had taken a decision on certain laws that would not require the Lower House to consult the Upper House.

But given the reality of the day, the NDA government will have to battle it out with the opposition even during the next session of Parliament to ensure the crucial bills have a smooth passage. ◆

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# AROUND THE WORLD in 365 Days

Prime Minister Narendra Modi's foreign visits have caught everybody's attention. In all, he has spent 52 days visiting 18 nations in his first year in power. The visits have generated much hype and hoopla, but what are the achievements? For the bean counters, *BT* presents an account of the visits in terms of agreements and promised investments.

Graphic by: **Anand Sinha**
Research by: **Jyotindra Dubey**

Promises Made to India

## JAPAN
August 30-September 3, 2014

- Japan to double investment to **$34 billion** over the next five years. Focus on infrastructure and smart cities
- Ban on HAL and five other Indian entities, imposed after the 1998 nuclear tests, lifted

## UNITED STATES
September 26-30, 2014

- US-India Business Council plans **$41 billion** investment by its members in the next three years
- US to be the lead partner **for developing smart cities** in Ajmer, Vishakhapatnam and Allahabad

## AUSTRALIA
November 14-18, 2014

- Civil nuclear cooperation agreement to enable the sale of **Australian uranium**
- Comprehensive economic cooperation agreement to boost **trade and investment**
- Australia to support **Ganga rejuvenation** efforts

## FRANCE
April 9-12, 2015

- Twenty pacts on Make in India cover civil nuclear energy, urban development, railways and space. France pledges **€2 billion** for sustainable development

- India to buy **36 Rafale fighter jets** from France
- L&T and Areva sign MoU to boost **localisation and financial viability of Jaitapur nuclear plant** in Maharashtra
- Airbus' outsourcing from India to go up from **€400 million to €2 billion** over the next five years

## GERMANY
April 12-14, 2015

- Boost to Make in India, **wooing foreign investors** and skill development
- Germany keen to support **Ganga rejuvenation, urban sanitation, efforts to curb industrial pollution,** innovative financial models
- Germany to support India's objective of generating **175 GW** renewable energy by 2022

## CANADA
April 14-16, 2015

- Harper, Cameco Corporation to supply 3,000 metric tonnes uranium over five years for **$254 million**
- Canada to invest **C$2.5 million** in five health innovations
- 13 MoUs signed between the **National Skill Development Council of India and 13 Canadian** colleges, institutes and sector skills councils

## CHINA
May 14-16, 2015

- At a Shanghai event, 21 agreements, with **$22 billion investments,** signed. Highlights are China Development Bank's funding to an Adani power plant and a Welspun steel project
- ISRO and China space agency sign pact for **space exploration**
- **Electronic tourist visas** to Chinese nationals
- Bid to reduce trade deficit by expanding ties in **infrastructure, IT, pharma, agriculture and manufacturing**

# The India Commitmer

## SOUTH KOREA
May 18-19, 2015

- South Korea to provide **$10 billion for infrastructure, smart cities, railways, power generation** and other diversified areas
- Boost to defence. Seven pacts, including on **avoidance of double taxation,** signed

## BHUTAN
June 16-17, 2014

- Commitment to hydropower sector, meeting **10,000 MW** target

## NEPAL
August 3-4, 2014

- India offers Nepal **$1 billion** concessional loans that can be used to build power plants, roads and dams

## FIJI
November 19, 2014

- Fiji gets **$75 million line of credit for a co-generation power plant at Rarav Sugar Mill** and modernising village, small and medium enterprises

## SEYCHELLES
March 10-11, 2015

- India inks four pacts on **hydrography, renewable energy, infrastructure development and electronic navigational charts.** Other focus areas: Health, education, defence and maritime security

## SRI LANKA
March 13-14 2015

- India to help **Trincomalee become a petroleum hub.** Fresh line of credit of up to **$318 million** for Lankan railways.
- Currency swap pact worth **$1.5 billion** to keep the Sri Lankan rupee stable

## MONGOLIA
May 16-17, 2015

- India extends a credit line of **$1 billion**
- Signs a memorandum of understanding in the **renewable energy** sector

## MAURITIUS
March 11-13, 2015

- India offers **$500 million** line of credit for infrastructure.
- Mauritius offers cooperation on information exchange on taxation

# Degree of Discontent

## The IIM Bill 2015 is causing consternation among other B-schools. But do they really need to worry? By CHITRA NARAYANAN

What's in store? Students at IIM Calcutta

SUBIR HALDER

**THE IIM BILL COULD HURT THE 300-ODD PRIVATELY RUN MANAGEMENT INSTITUTES THAT OFFER PGDM COURSES**

When it ain't broke, do you really need to fix it? The Indian Institutes of Management (IIMs) have been coasting along for decades enjoying phenomenal brand equity. So why is the government now introducing an IIM Bill?

Likely to be tabled in the monsoon session of Parliament, the IIM Bill 2015 will allow the 13 IIMs to confer an MBA degree rather than the post-graduate diploma in management (PGDM) they offer now. The IIMs hope this will help them attract foreign students and boost research. Many IIMs also want to set up campuses abroad, for which a degree is a pre-requisite. The Bill is a legitimate need, but it may leave the 300-odd privately run B-Schools that offer PGDM courses out in the cold.

The IIM Bill has been in the making for over a decade, points out Bakul Dholakia, former director of IIM Ahmedabad and currently Director General of International Management Institute, New Delhi. Ironically, when it was first proposed, the IIMs opposed the Bill. They felt their autonomy (the IIMs are structured as independent societies) would be affected, as the government would have to create an overarching supervisory council, akin to the IIT council, in order to grant a degree. As a result, the Bill has seen several rounds of changes. Reports suggest the plans to create a council have been dropped, though it's not clear what the new governance structure will be.

Meanwhile, those arguing against the Bill point out that institutions like XLRI, Jamshedpur and MDI, Gurgaon rank above some newer IIMs (Kashipur, Indore etc). The fear is that the newer IIMs will get an unfair advantage as students might choose an institute that gives a degree rather than look at B-school rankings. "This bill will definitely benefit the newer IIMs. To reach the benchmark of the older IIMs in terms of leadership, quality of teachers, quality of students, might have taken them 15 years. Now they will be able to achieve this quickly," says Dholakia.

But Devi Singh, former director of IIM Lucknow, brushes aside these concerns and says there's a larger vision to the Bill. "A big criticism of standalone institutions such as the IIM has been that they are too narrow-focused around general management. The need of the hour is more broad-based education," he says. Rajan Saxena, Vice Chancellor of Narsee Monjee Institute of Management Studies, bats for the Bill too. "It is an opportunity for the non-IIM institutions to innovate," he says. Certainly, institutions that have innovated, such as the Indian School of Business, have shown that a unique space can be crafted.

Seeking global accreditation is one option for the B-schools that are averse to be affiliated to a university. Affiliation is a route to mediocriy as Dholakia says. But he warns that destroying the level-playing field could be disruptive. "It is much easier to destroy excellence than create excellence," he warns. A possible solution, he feels, could be for the government to extend the same degree-granting benefit to private B-schools through a body like the All India Council for Technical Education. For this, an independent agency could be created to rate the institutes and only those that make the top grade could be granted the same status as IIMs. "This problem can be easily solved. All that is required is political will and a proper mechanism to find a way forward," says Dholakia. ◆

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WHAT'S TRENDING

# Catwalk on the Web

What Zomato and TripAdvisor did to eating out and travel, start-ups like Roposo and Wooplr hope to do for fashion retail.

By **CHITRA NARAYANAN**

RAJ VERMA

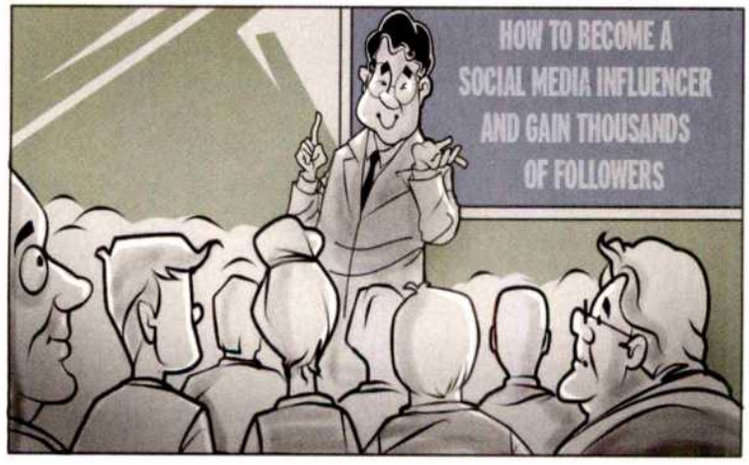
Social conversations and recommendations around food and travel have shown they have the power to make or break the food and beverage outlets and shape the tourism space.

Now a host of fashion discovery apps and sites that run on user-generated content are beginning to influence apparel retail. Start-ups like Roposo, Wooplr, Violet Street let users who are fashionistas create and curate looks and direct conversations on styles. For instance, if you are looking for a little black dress, or LBD, then you just need to go to a fashion discovery app that will pull out its top picks and direct you to stores where you could get the dress. Unlike Pinterest where users pin content from here and there, the content is usually original on these social fashion discovery sites.

Both investors and smart retailers who understand the power of social discovery to drive e-commerce are investing in these apps. Roposo and Wooplr have bagged funding in recent months. Roposo, set up by three IIT Delhi alumni – Mayank Bhangadia, Kaushal Shubhank and Avinash Saxena – which had initially got angel investment from the likes of Flipkart's Binny Bansal, has just got a $5 million funding from Tiger Global. Similarly, Wooplr, set up by four McAfee employees – Arjun Zacharia, Praveen Rajaretnam, Soumen Sarkar and Ankit Sabharwal – has also just got a funding of $5 million from Helion Ventures. Wooplr had earlier got angel investment to the tune of $225,000 from a group of investors.

Unlike food and travel, where the

SOCIAL TOON



written word carries weight, social fashion is a highly pictorial-driven place. Perhaps, this explains why ever since Roposo launched a mobile app four months ago, it has seen a tremendous spike in users contributing to the content.

As Bhangadia, co-founder Roposo, points out, users find it far easier to do photo reviews from the mobile where they just need to click and add a picture from the device. According to him, since the move to mobile app, 23 per cent of their unique users create content. "On the web it was low," he admits, though he says that features like lists and all see traction there. Roposo (the name is a play on Apropos) claims it gets two million visits every month.

Wooplr, which had launched its mobile app as far back as 2013, aims to touch five million app downloads in the next 18 months, says Rajaretnam, its co-founder and Chief Marketing Officer.

Social fashion discovery sites, Bhangadia explains, are a layer on top of e-commerce. Once somebody has bought a dress from an e-commerce store, you can post a review of that dress on a fashion discovery site. At the same time, it's also a place you go to before you buy. So it's a full circle around the e-commerce site.

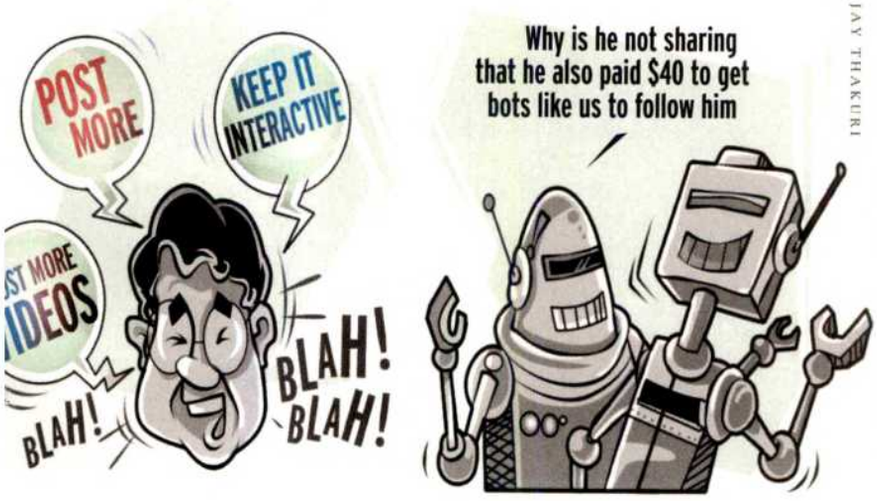
What if the marketplaces themselves invest in a social discovery engine? Bhangadia says that is not a threat as "somebody neutral has to do it". For both Roposo and Wooplr, affiliate marketing (getting paid by e-commerce sites for leading users to it) is a revenue stream. Wooplr also has Social Storefronts to drive more leads and sales for SMEs. They will be charged either a subscription fee or on a pay per transaction basis.

So more the users better is the chance of monetisation for these sites. Aren't Indian users far more self conscious when it comes to posting about their shopping compared to China and elsewhere? Do they need incentives to post? "We do not incentivise generally. Only when we launch new features – such as photo reviews - we incentivise through coupons," says Bhangadia.

Rajaretnam of Wooplr feels India is catching up with China in terms of user generated content. "We are seeing more and more users being comfortable with sharing content online and we can expect a social commerce boom in the near future," he says. ◆

ADDITIONAL REPORTING BY VENKATESHA BABU

*@ndcnn; @venkateshababu*




AJAY THAKURI

## LISTENING POST

### Twoogle it, Now!

The king of search, Google, and the king of speed, Twitter, have teamed up to make searching for tweets an easy experience. Users can now 'twoogle' it on Google! This is truly a useful alliance as searching for old tweets or people on Twitter has always been pretty painful. If users benefit, it's a win-win deal for both Google and Twitter as the former gets a boost to its search capabilities while the latter can potentially gain new users. Of course, the partnership has also now fuelled rumours of a possible merger between the two. If that happens, then the only loser will be Google+.

### Curated Content

CATCHPOOL

Tired of dealing with content overload, the noise, the conversations that end up drowning out the useful stories on Twitter? Two new social networks have come up to tackle this. One is This. (spelt with a period) and the other is Catchpool. Both are fairly similar to Twitter in the sense that users can follow people and companies. The difference is that these are designed like social magazines – a bit like Flipboard and Pulse (now owned by LinkedIn), except that instead of pulling content into their apps, Catchpool and This. send you to publishers' sites. The content game is always a tough one to crack so let's see how these new networks fare. Meanwhile, Twitter is not sitting idle – there are rumours that it could be acquiring Flipboard.

### Easy to Digest

There are days when you may not even have the time to scroll down your social media feeds and might miss out on potentially exciting news. Twitter solved this by sending you email digests of the best tweets you might have missed. Facebook's solution was to push notifications and filtered feeds. Now it's Instagram's turn to boost engagement through email 'highlights'. This could also potentially wake up inactive members. It also shows that the email is still highly relevant and is not going to die out just yet!

# GST: Game Spoiler

By M. VEERAPPA MOILY

## NDA's half-baked GST is a blunder

A number of questions on the GST remain unanswered even today. To what extent are the states on board? Have any month-wise targets been fixed? Where is the roadmap? Further, some provisions in the 122nd Constitution Amendment Bill, as introduced by the NDA government, as well as the suggestions by states, will defeat the very purpose of the GST.

The main aim of bringing in the GST was to broaden the base, lower the tax rate and remove the cascading effects of taxes on inputs. But the additional one per cent tax proposed in the Bill as well as the high revenue neutral rate (RNR) of 27 per cent that is being considered will be a disaster. The one per cent tax will lead to cascading effects, the high RNR will encourage tax evasion and reduce compliance, and more exemptions will narrow the base and increase the tax rate.

The Bill has brought out fundamental differences from the 115th Amendment Bill of the UPA. In the proposed GST Council, the Centre will have one-third voting power and the states together will have two-third voting power. For any proposal to be cleared by the council it has to get 75 per cent of the vote. This means anyone who has greater than 25 per cent vote can block any measure. Without the Centre's approval nothing can be cleared in the council. While the UPA amendment sought consensus, the NDA amendment brought in contradictions and confusion. While the UPA measure provided for a grievance redressal mechanism, the NDA has done away with such an objective and transparent measure.

The UPA's Bill allowed the states to tax entry of goods into a local area for use or sale only to extent levied by a panchayat or municipality. This provision has been deleted in the NDA's Bill. The NDA's approach negates the spirit of the third tier of decentralised democracy. Also, the 122nd Amendment does away with the philosophy of cooperative federalism. This may create problems for the state governments of regional parties and silence the minority in a democratic polity.

A close examination of the 122nd Bill shows that the structure envisaged is far from being flawless. The Bill provides only a minimalist framework for the levy. The details of the structure and operation of the tax, including the exemptions, rate structure and thresholds will be determined through negotiations in the GST Council.

In this context, three issues must be noted. First, given the nature of Indian polity, there is no incentive to the states to correct the defects implicit in the proposed GST. The inter-state sales tax is proposed to be withdrawn only when the GST Council decides so and given that every state gets some money from inter-state trade there is no consistency for abolishing it. Similarly, there will be no incentive to rationalise the taxes on petroleum products. Second, it would be too ambitious to presume that all the issues relating to the structure and operation of the tax can be accomplished by April 2016. If indeed, they should be, the Empowered Committee will have to come up with a detailed action plan with month-wise targets and monitor the implementation mechanism. Finally, while the GST is an important reform, it is unlikely to be flawless and therefore, will not be a game changer. We should see this as a process, the next stage of reform and continue to improve it upon over time.

During the next 11 months, the Constitutional Amendment Bill will have to be passed by Parliament. At least 50 per cent of state legislatures must pass this Bill. Then after the President's assent, it becomes part of Constitution. After this, the Centre and states will have to pass the GST legislations. Rules will have to be framed. It is a huge challenge to implement the GST by April 2016. The NDA, with the half-baked GST and dumping the DTC, has committed a historical blunder. ◆

***M. Veerappa Moily*** *is Advocate and Member of Parliament (Lok Sabha)*

# or Game Changer?

By SHIVRAJ SINGH CHOUHAN

## It is designed in a humane way

The fundamental objective of the GST reform should be to reconcile cooperative 'fiscal' federalism (political) and the globalised call for enabling common national markets (economic). The question is not about whether the NDA bill is better than the UPA's. Reform must evolve towards a common minimum understanding of what is in national and state interests. The GST should not be the BJP's or the Congress's, but should be an agenda with strategic impact on our future as a state and a nation.

Naturally, this Bill is better, having passed greater scrutiny from political, democratic and economic perspectives. The Empowered Group of State Finance Ministers (EGOSM) is working with the Union administration to steadily resolve various contentious issues. The final consensus about the GST should be about what Prime Minister Narendra Modi says, ensuring *sabka saath* for *sabka vikaas*.

The core sentiment to be appreciated is the radically different approach of the NDA – led by Modi, who has journeyed his way through the dynamic Centre-state interface.

The states had long withstood undermining of their policy jurisdiction – both in terms of strategy and finances, due to scheme-tied funding of development programmes that the UPA had perpetuated. What the PM, ably assisted by his government, and especially Finance Minister Arun Jaitley, is trying [to do] is to ensure holistic improvement in the reform narrative. On the one hand, the government diligently studied every outcome of the EGOSM deliberations. On the other, he ensured timely enhancement (from 31 to 42 per cent) of fund devolution to states based on the 14th Finance Commission recommendation. The dismantling of the Planning Commission and the establishment of the NITI Aayog was another concrete reform. The chief ministers now have ready platforms to share their best governance practices. The essence of cooperative federalism is being realised in its true spirit through these developments.

Indeed, the GST reform is still a work-in-progress, but so is every political process in a mega-diverse system like India. Modi and his government have displayed unprecedented courage in accepting state inputs, both political and technocratic, in the improvement process.

Madhya Pradesh is at a critical juncture in its development as India's food crop bowl and its internal multi-modal logistical hub, apart from being an emerging champion of the 'Make in India' campaign. Tourism in my state, like any other, is bound to improve quantitatively and qualitatively by leaps and bounds once the market anomalies are corrected by the GST reform. Our resistance of the GST in the UPA regime was against the form and not against the reform.

The crux of 'Make in India' (which encompasses every economic activity – not just industrial manufacturing) is value addition, and the GST reform should be one of the most crucial measures taken to ensure this. It should trigger greater investment and employability, while enhancing quality of product (goods and services) and quality of life (disposable incomes) of every citizen and enterprise, without eroding that of the other. A GST model worked out in such a way so as to take care of the small and middle level businesses, such as not inciting inflation, not compromising on the financial autonomy of the constituent units of the Union and not eroding the limited revenue base of certain states like Madhya Pradesh is always welcome.

My experience of leading the transition of Madhya Pradesh from being a BIMARU state to the fastest-growing and one of the most productive states in India, with steadily rising disposable incomes, strengthens my resolve and conviction in supporting Modi's government in seeing the GST reform being designed in a more humane and federalist way than before. ◆

***Shivraj Singh Chouhan*** *is Chief Minister, Madhya Pradesh*

**YASHWANT SINHA**, *former minister of finance and external affairs, calls himself a detatched observer of developments in government. He spends most of his time in his erstwhile constituency Hazaribagh, which is now represented by his son and Minister of State for Finance Jayant Sinha, and when in the capital stays in his home on the outskirts of Delhi. He told* **ANILESH S. MAHAJAN, RAJEEV DUBEY** *and* **SHWETA PUNJ** *that the Narendra Modi government is taking forward the agenda set by the earlier NDA government. Excerpts from an interview:*

***Is the Indian economy on the right track?***

So far, yes. But more needs to be done, and quickly, for reviving the investment cycle.

# "A lot of things have happened, but a lot remains to be done"

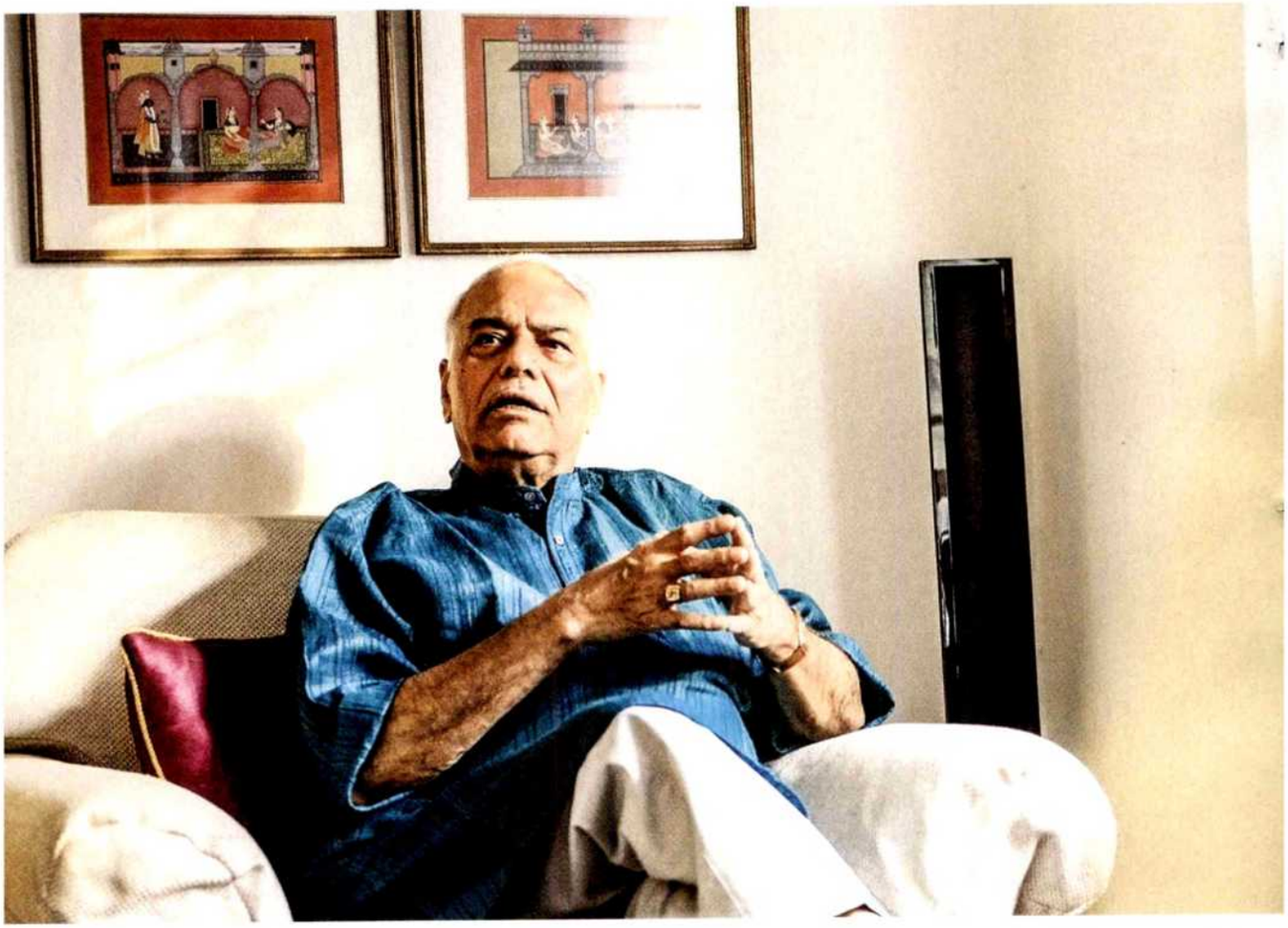
***Do you think in the past year industry's confidence in the government has improved?***

That is one big thing the last Lok Sabha polls did. As far as confidence is concerned, it stood completely destroyed. It came back with a bang after Mr Modi got elected. Especially, a government with full majority brought confidence back fully. There is no doubt that confidence is back.

***What kind of signals are you getting from industry?***

Before the elections, when people used to ask me, how much time it would require to turn the economy around I used to say it would take at least 24 months. Now 12 months have passed, and the impatient are asking these questions loudly now, why this hasn't happened, that hasn't happened. I think, return of confidence and improvement of sentiment was fine.. The hype that things will improve within six months or one year is clearly misplaced. Anyone who understands the dynamics of the Indian economy and the global situation knows that nothing less than 24 months are needed to make things happen. We have moved along, a lot of things have happened, but a lot remains to be done. The Economic Survey says projects worth ₹9 lakh crore are stuck at various levels. I see it on the ground. We, in our (Atal Bihari Vajpayee-led NDA government) time, sanctioned a four-lane highway connecting Ranchi with my constituency of Hazaribagh: one part of which is built, the other got held up

PHOTOGRAPHS BY RAJWANT RAWAT



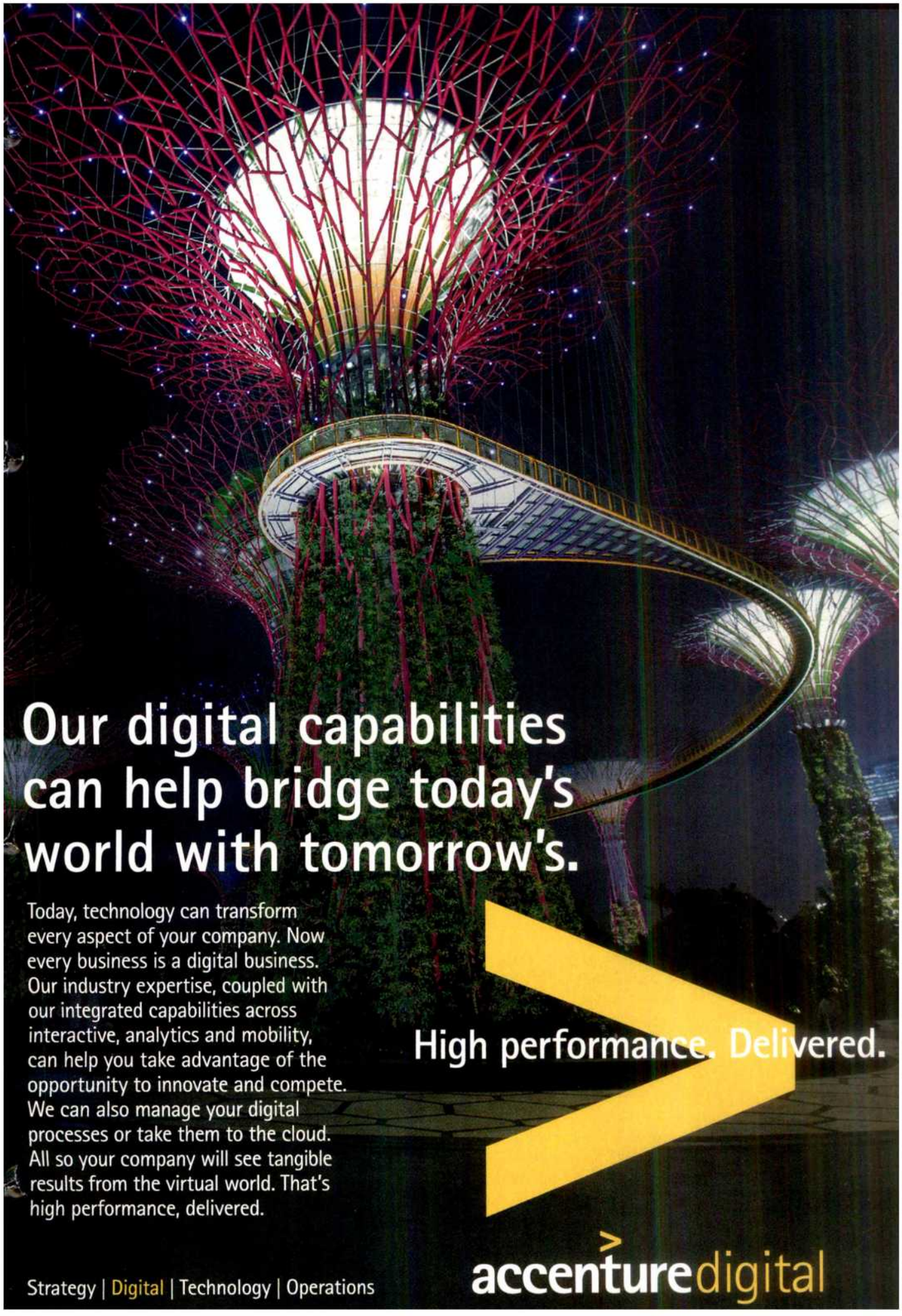
# "I will not go by appellations of new right, new left or new centre. No government in India can afford not to be pro-poor"

because the person who got this contract, got involved in the coal scam. So he walked out. I kept pursuing it with the UPA government when the project got stalled. Twelve months down the line nothing has happened, it is where it was.

***This is what many are saying, there are big announcements, big plans, but action on ground is missing...***

We have to understand the complexity of the situation. Take, for example, the much-publicised Jan-Dhan Yojana. I was reading a report somewhere that 70 per cent bank accounts have zero balance, but then DBT (direct benefit transfer) has yet not taken off. Once this scheme takes off, and the government moves its cash dole through these accounts, there will be money in these accounts. Any impatience at this time may not be fully warranted, but there is impatience, whether we like it or not.

***It appears that the government is keen to restructure the RBI in a way that will reduce its powers. How***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***will that affect the equation between the finance ministry and the RBI?***

There is no question of confrontation with the RBI, especially in the scope of work which is clearly demarcated. Where was Raghuram Rajan before his posting as the RBI governor? He was the chief economic advisor in the finance ministry, which means he is not an outsider. He understands the compulsions of the government. When I was finance minister, and Bimal Jalan was the governor, we never had any problem. I used to consult him on several issues outside the domain of the RBI because of his vast experience. Similarly, when he had to take a call on monetary policy he often consulted me informally. We worked as a team.

***Does India need a public debt management office?***

Yes, it does. But we should do it in consultation with the RBI. Let us not forget that the original proposal for this came from the RBI itself.

***Is it the right time for capital account convertibility?***

No, the time is not right. We are not yet ready for this. There are some pre-requisites that need to be met before we go the whole hog. The first is inflation. When I left the finance ministry, I thought the ghost of inflation was finally buried. Inflation was at developed countries' level. But I was wrong. Inflation came back to haunt us.

The second is comfortable reserves. This condition is met. The third is benign global conditions. This condition is not met. So the first condition is not met, the second is met and the third one is not met. Global conditions are far from benign. We are living in dangerous times. We do not know what will happen suddenly and where. It is not only the tapering of the quantitative easing in the US, it is also what is going to happen to Greece. Suddenly you will see things are different from what we had imagined.

Fourth, and very importantly, is how our own people, resident Indians, are going to behave. Earlier events show that some foreign currency crises in Latin American countries, Brazil or Argentina or even in Russia were largely engineered by citizens taking their money out. In our case in 1991, the NRIs added to the crisis by taking their money out. Whenever a little window for furthering the cause of convertibility was available we used it fully. There is already full convertibility on the current account. Only on the capital account that we have restrictions. Therefore, as far as this time is concerned, or the next few years, I do not see any good coming out from full convertibility.

Who would not like the rupee to be so strong that it could be freely traded without the danger of excessive devaluation? But as I said, certain conditions must be met.

We have hastened slowly, against the Washington consensus. Earlier, the IMF was critical of India for being very conservative on this issue. After the East Asian currency crisis, and the US subprime crisis, they have seen the merit of our logic of hastening slowly. In my five budgets, I carried forward the reforms in the foreign exchange market, and allowed several things which were forbidden earlier. Today there is huge FII, HNI investments in our stock markets. The relationship between the stock and foreign exchange markets has become critical. It was not there earlier. It was not there in 1991, for instance. The worst fear for any finance minister in a country like India is, any run like this in the stock market might affect the foreign exchange market. A fine balance has to be maintained between the two, if we want to maintain confidence. In a modern economy sentiment at times matters more than even the fundamentals of the economy. There is nothing wrong in saying that full convertibility is a desirable goal, but the timing is an open question. My recommendation will be the new

***In April, Yashwant Sinha received the highest French civilian award, the Officer of the Legion of Honour, in recognition of the work he did as finance and foreign minister in the Vajpayee government and also for the work he did as chairman of the Indo-French Parliamentary Friendship Group during the last Lok Sabha. Sinha received the award from the French Ambassador to India François Richier.***

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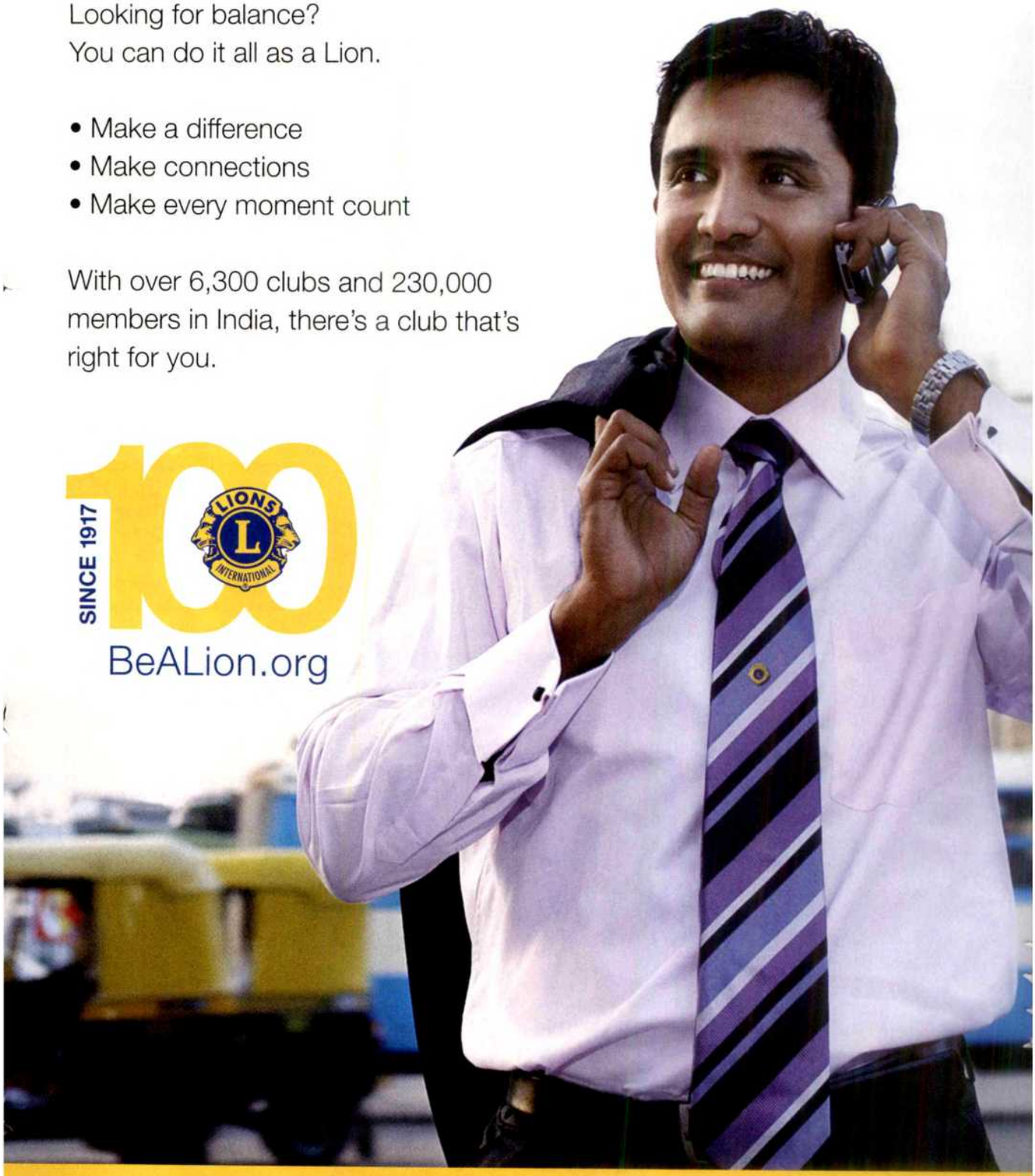

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theology of hastening slowly. The Indian model is much appreciated globally today than before and that is the path we should continue to follow.

***The government is moving between socialism, capitalism, right of centre. There are pro-poor policies like Jan-Dhan Yojna. On the other hand, they are pushing pension, real estate reforms. Your former colleague Arun Shourie said in an interview (to our sister channel Headlines Today) that the economic policy of this government is directionless. How do you define this new right economics?***

I will not go by appellations of new right, new left or new centre. No government in India can afford not to be pro-poor. There is just no way any government in this country can project itself to be neutral on the question of poverty or of the poor. This government is equally claiming to be pro-poor. Then there is a famous saying of (finance minister) Arun Jaitley, that being pro-corporate does not mean being anti-poor. They are trying to build this synthesis. Why are they building this synthesis? I am not trying to be an advocate to this government. I need not. The point here is, you cannot tackle poverty in this country without growth. Every government will vouch to be pro-poor. No government can say that it will try to resolve this issue of poverty without growth. We tried it for 40 years, and failed. The second is, do you want to solve the problem of poverty through doles and consumption-led growth or through investment-led growth?

In the Vajpayee era, we went for investment-led growth, that's why we launched the entire highway project, telecom reforms, rural roads scheme, ports and housing schemes. Everything was aimed at triggering consumption of investment goods. The idea was that investment-led growth will automatically lead to consumption. People will earn and consume. It would lead to creation of jobs, of durable assets and reduce the transaction cost in the economy. Better railway services, good roads, along with comfortable interest rates reduced the transaction cost in the economy. That's why the economy took off. What happened during the UPA regime? They turned this around into consumption-led growth, especially after the subprime crisis. You will find that all the money was spent on consumption, very little for investment. This created all the problems. Ultimately growth came down drastically, because this line of approach could not last long. You are bound to have high inflation and low growth in dole-led, consumption-led growth. In investment-led growth, you will have consumption following investment and growth will be sustainable. This government is following the same principle we followed in the Vajpayee era. The emphasis is to go for investment, and then do what you can do with fiscal prudence, so that inflation moderates and interest rates come down.

> "It is not fair to say that the peasants are turning against the BJP because of the [land] bill. It will be a hasty conclusion"

***There is a sense that the NDA government is getting stuck in the cobweb of politics, especially they handled the land bill or real estate bill or GST...***

Out of the ordinances issued only the land acquisition bill is pending. And from the information I am gathering, the real estate bill may be referred to the select committee.

***Do you think the government could not communicate well on the land bill and the Opposition seized an opportunity to regain the rural base?***

It is too early to reach such conclusions. You can't say that because of the land acquisition bill, we lost elections in urban Delhi. I give you another example. In my erstwhile constituency, a large area was being acquired by NTPC for coal mining. The local Congress MLA – now his wife is an MLA – opposed this. During the UPA regime they could not convince him. Now the compensation has been raised, from ₹15 lakh per acre to ₹20 lakh, and he is not opposing it any more. The issue has been settled without waiting for the land bill to be cleared. It is not fair to say that the peasants are turning against the BJP because of the bill. It will be a hasty conclusion. I agree with the view that like the labour laws we should encourage the states to have their own land acquisition acts. That will create competition among the states. ◆

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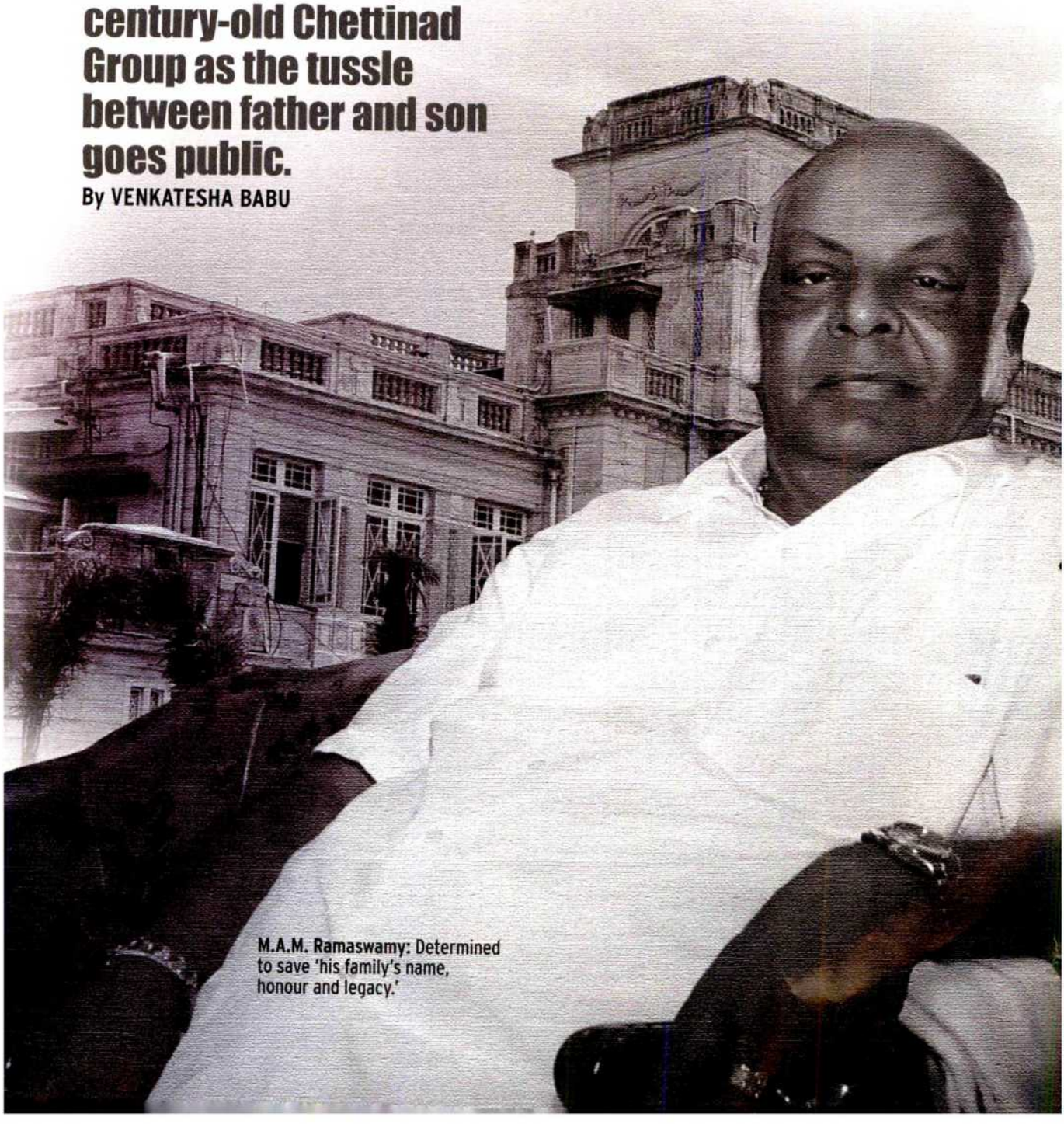
BJAZ-PR-0278/27-May-15

# Battle Royale

## Trouble is brewing at the century-old Chettinad Group as the tussle between father and son goes public.

By VENKATESHA BABU



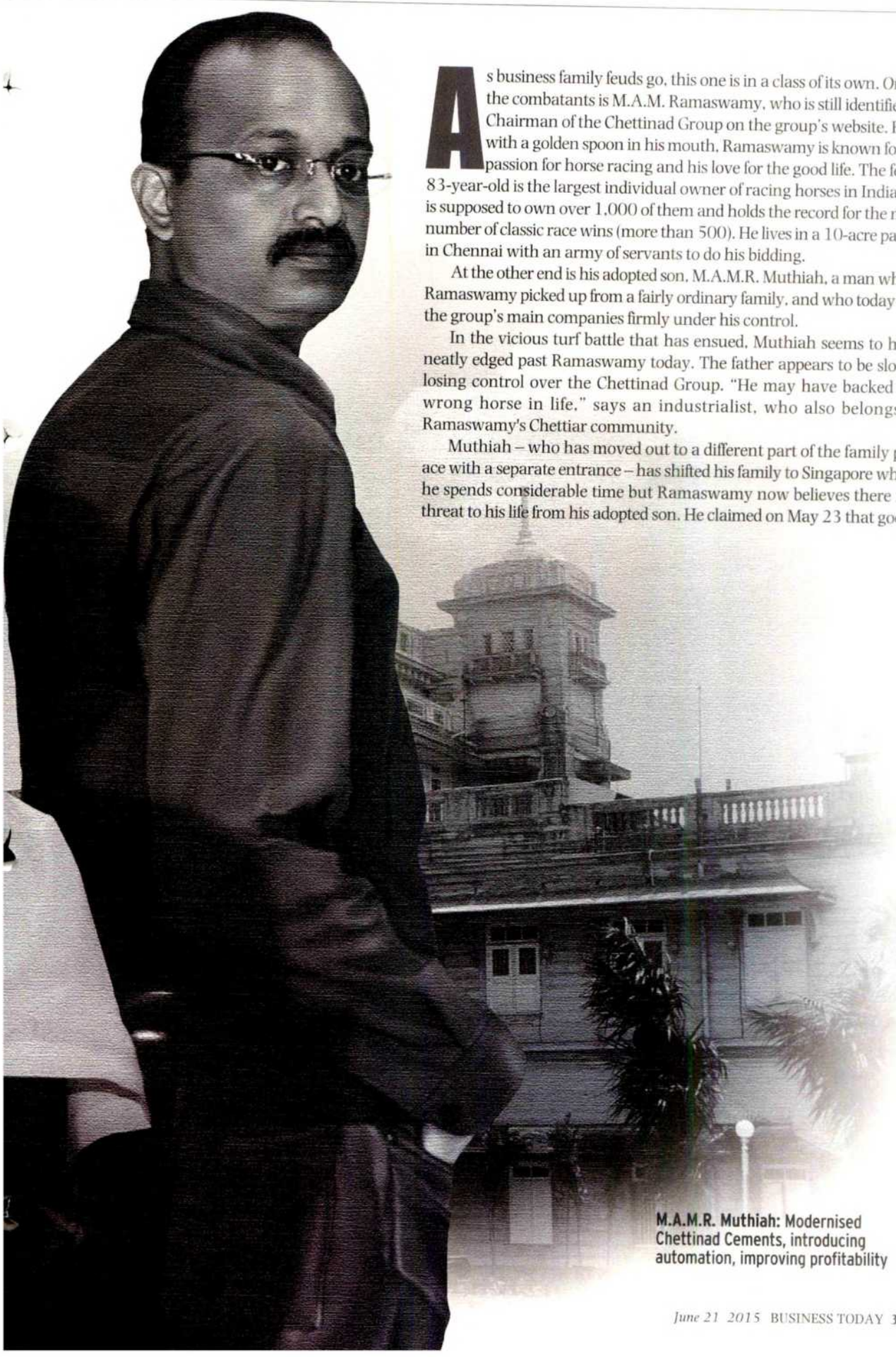
M.A.M. Ramaswamy: Determined to save 'his family's name, honour and legacy.'

As business family feuds go, this one is in a class of its own. One of the combatants is M.A.M. Ramaswamy, who is still identified as Chairman of the Chettinad Group on the group's website. Born with a golden spoon in his mouth, Ramaswamy is known for his passion for horse racing and his love for the good life. The feisty 83-year-old is the largest individual owner of racing horses in India. He is supposed to own over 1,000 of them and holds the record for the most number of classic race wins (more than 500). He lives in a 10-acre palace in Chennai with an army of servants to do his bidding.

At the other end is his adopted son, M.A.M.R. Muthiah, a man whom Ramaswamy picked up from a fairly ordinary family, and who today has the group's main companies firmly under his control.

In the vicious turf battle that has ensued, Muthiah seems to have neatly edged past Ramaswamy today. The father appears to be slowly losing control over the Chettinad Group. "He may have backed the wrong horse in life," says an industrialist, who also belongs to Ramaswamy's Chettiar community.

Muthiah – who has moved out to a different part of the family palace with a separate entrance – has shifted his family to Singapore where he spends considerable time but Ramaswamy now believes there is a threat to his life from his adopted son. He claimed on May 23 that goons



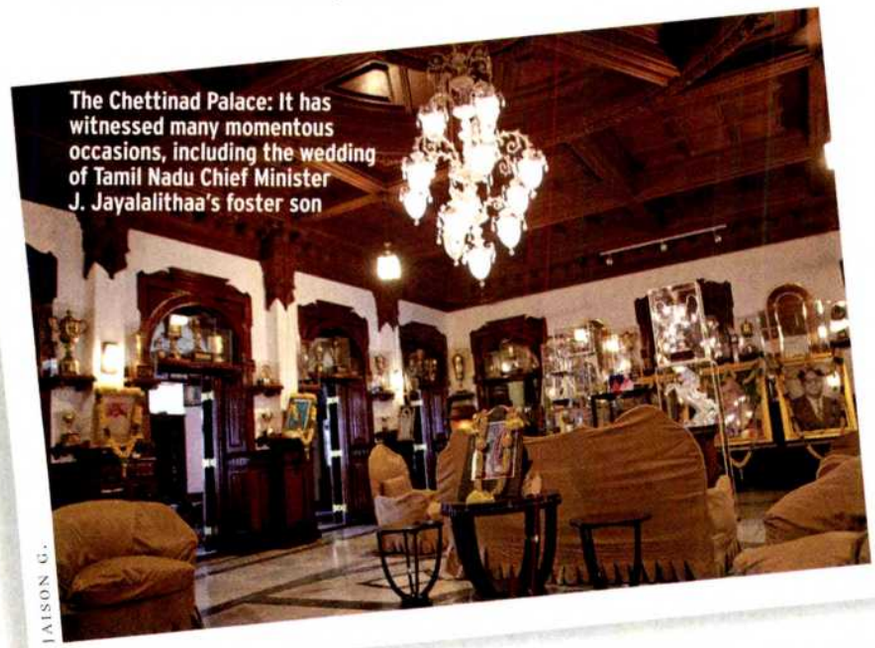
**M.A.M.R. Muthiah:** Modernised Chettinad Cements, introducing automation, improving profitability

AJAY THAKURI

tried to forcibly enter his part of the palace (the West Wing), smashed 90-year-old glass cases and that he feared for his life.

While differences had been festering between the two for some time, things came to a head on August 27, 2014, when Ramaswamy was removed as the Chairman of Chettinad Cements and was replaced by Muthiah's candidate. "That scar will not heal. How can I be ousted from my own company? How can I ever trust him? He was a nobody when I adopted him and opened my home and heart. This is how he has repaid," says an emotional Ramaswamy. But there is more to it than meets the eye. The Registrar of Companies, Chennai, M. Manuneethi Cholan, was arrested by the CBI on August 26 for allegedly accepting a ₹10 lakh bribe from Ramaswamy to declare resolutions of the August 27 shareholder meeting, in which he was removed, as null and void. Cholan was subsequently suspended and the case is pending. Ramaswamy, who was also charged in the case, says it is all cooked up by his son and refuses to comment further as the case is subjudice.

It is difficult to get an exact estimate of the size of the Chettinad group today given that almost all the companies in it are privately held. A few decades ago, it was one of the most significant groups in the south, and the Chettinad family was counted as one of the richest families in Tamil Nadu. Today, after years of slow growth, the group has fallen behind, but it is still significant in size. With interests in cement, silica, hospitals, education, trading and others, the group's revenues are conservatively estimated to be in excess of ₹5,000 crore. Chettinad Cements, Chettinad Logistics and South India Corporation are among the larger companies in the group. Apart from this, Ramaswamy's family has extensive land holdings in private capacity and in some cases through trusts. The Chettinad Palace, with the palace buildings alone located on a two-acre plot, is estimated to be worth ₹1,800 crore to ₹2,000 crore.



The Chettinad Palace: It has witnessed many momentous occasions, including the wedding of Tamil Nadu Chief Minister J. Jayalalithaa's foster son

JAISON G.

## Genesis of the Group

The group traces it origins to the S.R.M.M. family (short for Satappa Ramanatha Muttaiya) in the late 1870s. S.R.M.M. Muthiah Chettiar was a noted financier and a moneylender as well as a philanthropist and belonged to the Chettiar community. His youngest son Annamalai Chettiar started India's first private university in 1929, the Annamalai University. The family made its fortune not just in India but also Myanmar, Sri Lanka and Malaysia. The King of England conferred the title of Rajah of Chettinad on Annamalai. His son M.A. Muthiah Chettiar inherited and grew the Chettinad Group, while another son M.A. Chidambaram founded the SPIC Group after branching out on his own.

Indeed, it is hard to commute anywhere in Chennai without passing by either an educational institution, a hospital, a company or a temple not named after or started by the S.R.M.M. family. Members of this family have started institutions like the Indian Bank, United India Insurance, Indian Overseas Bank, Madura Coats, Consolidated Coffee Ltd apart from conglomerates like the Chettinad Group and the SPIC Group. It has also given the country a finance minister (P. Chidamabaram), members of Parliament, and has been a generous patron of education, sports, art and culture.

The Chettiars comprise one of the most successful business communities in India. They are also called Nagarathars, and may have a minuscule population of just 1.25 lakh but they punch above their numerical weight in terms of contribution to industry, trade and commerce. (See *Chettiars – The Parsis of South India*).

The Chettinad Group, started in 1902, was nurtured by Muthiah Chettiar initially and then his sons M.A.M. Muthiah and M.A.M. Ramaswamy. M.A.M. Muthiah had no children and died in 1970. In 1984, M.A.M. Ramaswamy inherited the group after his father's death.

## Picking the Wrong Horse?

M.A.M. Ramaswamy still has the presence to turn heads in a room be-

cause of his towering height (6 ft 2inches) and his considerable girth. He is respectfully addressed as *Aiyya* (equivalent to Sir in Tamil), or sometimes as 'Rajah', by his employees, community members and others.

A keen sports enthusiast, Ramaswamy was also president of the Indian Hockey Federation and under his stewardship India won its first and only World Cup Hockey championship in 1975. More than hockey, it is his passion for horse racing that has kept him in the limelight. His legendary turf rivalry with another flamboyant tycoon, Vijay Mallya of the UB Group, is also well known.

"Early on he had the image of a bit of a playboy. When he was inducted into the family business he was seen as being a reluctant industrialist who was more interested in good things of life," says another leading Chettiar industrialist about Ramaswamy, who was listed by Forbes magazine as the 88th richest Indian in 2012 with personal wealth of $650 million. "The joke within the community about his racing wins was 'if there were eight horses in a race, six would be his and the other two would be benami owned by him'. Irrespective of his obsession with horses, he had a generous heart, donated extensively to charity, was religious and gave back to society."

Ramaswamy was married at 21 to his maternal uncle's daughter, Sigapi Achi. By all accounts it was a happy marriage. However, despite his considerable wealth, he did not have any children, like his elder brother M.A.M. Muthiah. Ramaswamy was content to let professionals run his group and devoted his time to the race course and his philanthropic

## POINT COUNTERPOINT

Ramaswamy and his son, Muthiah, have been at loggerheads

**Muthiah camp/Ramaswamy camp**

### Small coterie of old employees and hangers-on have ill-advised father

Not true. Ramaswamy capable of taking independent decisions – he's mentally and physically fit to do so

### Chettinad Cement's growth due to efforts of Muthiah

The family invested money in the business. The company and the group had grown under professionals earlier, too

### Family wealth being spent on purchase of horses

With 1,000 horses and 500 classic wins, Ramaswamy is the single-biggest individual horse owner in the country and a big patron of the sport. Money spent is personal

### Mismanagement at Annamalai University led to the government taking it over

There was no mismanagement. The takeover was unfortunate

### Family assets are being frittered away

Assets being sold are the personal wealth of Ramaswamy

### Want this public spat to end

Not sincere about reconciliation. Trust to be created to ensure more assets do not go to the son

### Community members unhappy over the fight

Muthiah faction has zero community support

### Cannot be disinherited or disowned legally

Disowning has been done according to community traditions. Legal process is being examined

There is a grave threat to Ramaswamy's life. Authorities must step in

### No question of anybody's life or property being threatened

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## ON STRONG GROUND

Ramaswamy's son M.A.M.R. Muthiah and wife Geetha own a majority stake in main group companies

### CHETTINAD CEMENT*

| | |
|---|---|
| M.A.M. Ramaswamy | 24.0% |
| Geetha Muthiah | 18.2% |
| M.A.M.R. Muthiah | 14.6% |
| Chettinad Logistics | 9.67% |
| Chettinad Holdings | 6.0% |

| TOTAL INCOME | PROFIT AFTER TAX |
|---|---|
| 2,563.9 | 105.3 |

### SOUTH INDIA CORP.

| | |
|---|---|
| Geetha Muthiah | 72.8% |
| Meena Muthiah# | 24.7% |
| Estate of Late Rani MeyyammaiAchi | 2.46% |

| TOTAL INCOME | PROFIT AFTER TAX |
|---|---|
| 334 | 29 |

### CHETTINAD LOGISTICS

| | |
|---|---|
| Geetha Muthiah | 23.0% |
| Chettinad Holding | 77.0% |

| TOTAL INCOME | PROFIT AFTER TAX |
|---|---|
| 1,445 | 85 |

### CHETTINAD HOLDING

| | |
|---|---|
| M.A.M.R. Muthiah | 37.6% |
| Geetha Muthiah | 19.4% |
| CHETTINAD Lignite Transport Services | 43.0% |

| TOTAL INCOME | PROFIT AFTER TAX |
|---|---|
| NA | 27.3 |

### CHETTINAD COAL TERMINAL

| | |
|---|---|
| South India Corp. | 36% |
| Navyuga Engineering Company | 32% |
| Portis Management Services | 32% |

| TOTAL INCOME | PROFIT AFTER TAX |
|---|---|
| 2.37 | 0.04 |

### CHETTINAD LIGNITE TRANSPORT

| | |
|---|---|
| Geetha Muthiah | 49.0% |
| M.A.M.R. Muthiah | 51.0% |

| TOTAL INCOME | PROFIT AFTER TAX |
|---|---|
| NA | 15 |

Income and profit in ₹ crore; NA - Not available; either the company has not submitted latest financials or the financial documents are not clear and readable. Source: Registrar of Companies *Source: CMIE Prowess #Wife of M.A.M.R. Ramaswamy's brother

activities. He also became the Pro-Chancellor of Annamalai University, which was taken over by the Tamil Nadu government last year. (Ramaswamy's legal team has challenged the takeover by the government and his removal as Chancellor.)

However, pressure from relatives and community members began to mount on him to adopt and carry forward the family name. After an extensive search, and much against the opposition of immediate family members, Sigapi selected 'Iyappan', a 25-year-old. "Ramaswamy is a devout and religious person. He was swayed by the boy's name as he himself was a great devotee of Swami Ayyappa," says the anonymous Chettiar community leader quoted earlier. Ramaswamy had earlier constructed an Ayyapan temple, which even today stands opposite his Chettinad Palace.

He construed the name of the boy as a divine signal and adopted him on February 9, 1996, with his wife's backing. He renamed him M.A.M.R. Muthiah in memory of his father. Ramaswamy was 64 years old by then and his wife had already suffered a stroke. Muthiah came from a different sub-sect of the Chettiar community and his family had modest means. Still, the father and the adopted son initially got along fine. Sigapi Achi smoothed over whatever minor differences arose.

"He behaved better than what one could expect of one's own son. I called him Thambi (brother)," says Ramaswamy. In fact, Ramaswamy and his wife were so enamoured by the adopted son that they transferred a large portion of their not inconsiderable wealth to him. In 1999, Ramaswamy made Muthiah the Managing Director of his group's

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flagship company, Chettinad Cements. Muthiah is married to Geetha and they have three children – two daughters and one son.

Muthiah was disciplined, hard working but extremely tight fisted with money, according to the industrialist quoted earlier. He was not popular in the community and did not seek to network with the close-knit Nagarathars. "He had worked in America, had a disdain for what he thought was fuddy-duddy ways of doing business of the old generation, and wanted to bring changes," says the industrialist.

## Son Rise, Father Eclipse

Muthiah failed to cultivate community members but most of them credit him with a sharp business acumen. "He is a typical Chettiar. He modernised Chettinad Cements, introducing automation, cutting costs and improving profitability, " says the Chettiar industrialist quoted earlier. This seems to have led to some friction between the father and son. While Ramaswamy was accustomed to having even second- and third-generation employees work for his family, Muthiah laid emphasis on utility and productivity and not loyalty. When automation was introduced, he culled employee numbers.

"He is a miserly fellow. Looks at everything from the point of money. Even to give a cup of coffee to somebody, he will examine whether there is any return from that person. I am unaccustomed to that," says Ramaswamy. "We have an open house, an open kitchen. Drivers of my visitors would routinely go to the canteen at the factory or the kitchen in my house where they would be served. I have a different value system."

Ramaswamy had an open hand with regard to the people who approached him for help. While Muthiah chose not to speak with *BT*, a source close to Muthiah says: "Aiyya doesn't realise people take advantage of him. Times have changed and he also needs to change. Even the Rajah of Chettinad title is a British creation. They never ruled over a territory. It was a title given to the family for being loyal to the British."

Things started slowly changing after Sigapi Achi's death in 2006. It was "an irreparable and unbearable loss", says a misty eyed Ramaswamy. Slowly employees who were loyal to Ramaswamy but were considered unproductive were dismissed. The palace staff was cut to 67 employees from more than 100. The headcount at Chettinad Cements, which had 1,800 to 2,000 employees at its peak, was cut by half. When these people increasingly appealed to Ramaswamy 'for help and justice', it started driving a wedge between the father and son.

The differences came out into the open when Ramaswamy was removed as the Chairman of Chettinad Cements. Ramaswamy says this was possible because he transferred the 50 per cent holding of his wife in the company to Muthiah's wife Geetha. He says security cameras were installed at the behest of Muthiah to monitor his movements and visitors.

"While all of us feel for Aiyaa [Ramaswamy] regarding what Thambi [Muthiah] did to him, there were also genuine reasons. Some old timers were using their proximity to Aiyaa to skim money off the

## CHETTIARS – THE PARSIS OF SOUTH INDIA

Chettinad is located in Sivaganga district in fertile plains of southern Tamil Nadu. It is known for several things, including cuisine, architecture, sarees and handmade tiles. However, it is best known as the home of Nattukottai Chettiars. There are just 1.25 lakh of them in the world. Also called Nagarathars, or city dwellers, they are known for their financial acumen and ability to trade.

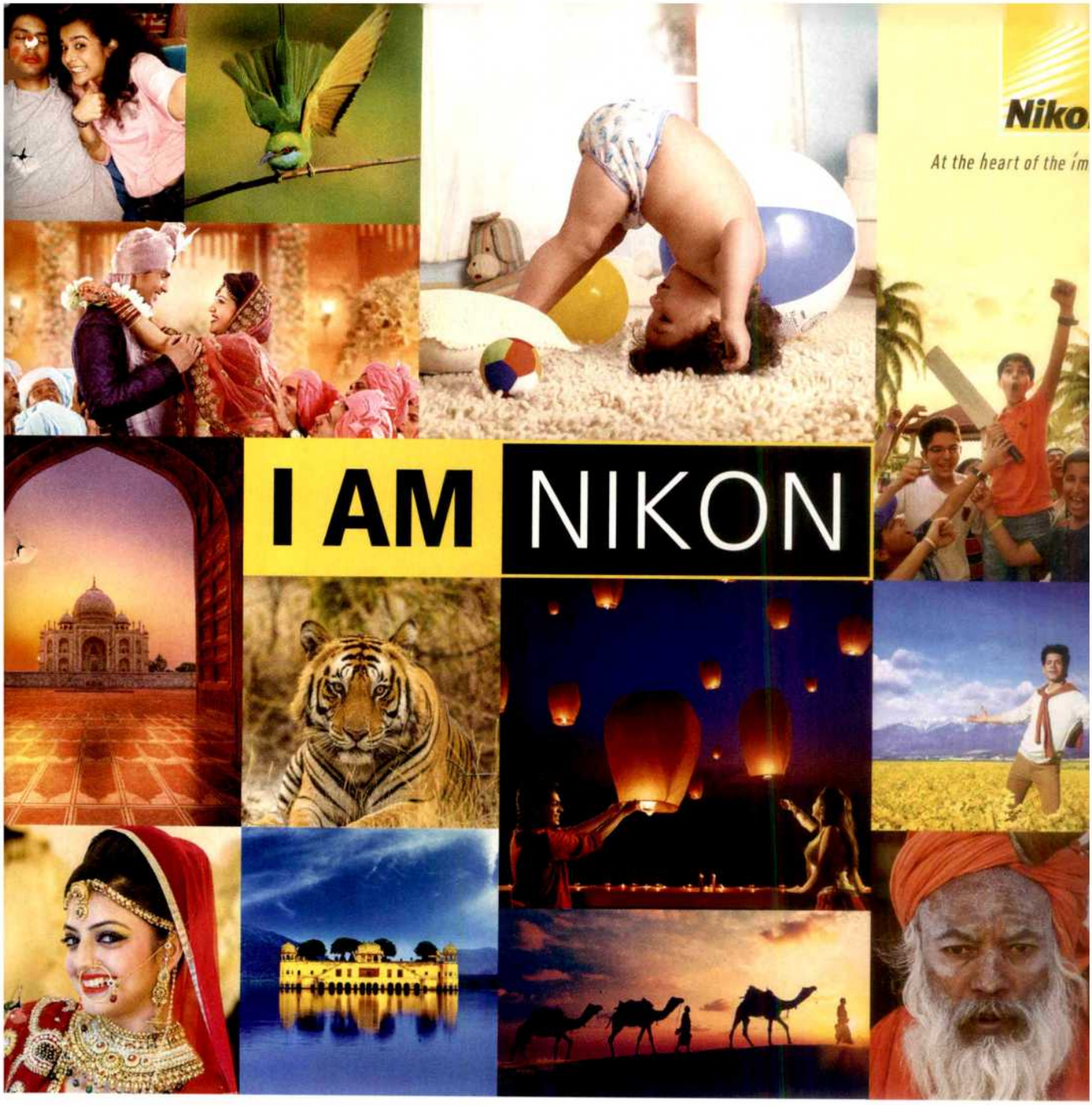
And that is the reason they have thrived for centuries. Even before independence, the Chettiars were highly influential in Mandalay (modern Myanmar), Ceylon (Sri Lanka), Malay (Malaysia, Singapore) and Vietnam. At one point, one-third of all rice fields in Burma were owned by Chettiars, who were moneylenders and industrialists there, according to the community members. Riots forced them to flee.

V. Nagappan, a well-regarded Chettiar who runs Oriental Stocks, a broking company, says his community members are often called the 'Jews of India' or 'Parsis of South India.' He attributes the success to tight-knit community networks, hard work, enterprise and ability to adapt. "For a Chettiar, his word is a bond. That has earned it trust and respect."

Even as they roamed the world, the Nagarathars never lost their connect with Chettinad. This shows in the large number of palatial mansions they have built in their hometown.

Nagarathars punch above their weight when it comes to industry and commerce. The first finance minister of independent India in Nehru's cabinet was R.K. ShanmukhamChetty, a Nagarathar. The Chettinad Group, started by S.R.M.M. Muthiah Chettiar, is one of the oldest in the country. His son Annamalai Chettiar started Annamalai University. The Algappa University in Karikudi was started by Algappa Chettiar. AVM Productions, one of Tamil cinema's oldest and most prestigious studios, was started by A.V. Meyiappan.

Former Union Finance Minister Palaniappan Chidambaram is another well-known member of the community. The Chettiars also own the Murugappa Group and the SPIC Group. They also started Indian Bank, Indian Overseas Bank, United India Insurance and a host of other well-known entities before they were nationalised.



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INTERVIEW WITH M.A.M. RAMASWAMY

# 'THIS IS NOT ABOUT MONEY. IT IS ABOUT TRUST AND THE FAMILY LEGACY'

*He may be 83 and his knees may trouble him but* ***M.A.M. Ramaswamy****, Chairman of the Chettinad Group, has a sharp memory. In a free-wheeling conversation with* ***Venkatesha Babu****, Ramaswamy, though sounding exhausted, was at times angry and at times combative as he talked about the controversy surrounding his family. Edited excerpts:*

**You have publicly accused your (adopted) son of trying to kill you...**

My wife was the best girl a man could have asked for but unfortunately we did not have children. My (elder) brother also did not have any children. From the 1990s, my wife, family members and well-wishers wanted us to adopt somebody to carry on the name of the family. We are a small and tight-knit community.

It is a fact that a number of people even within the (extended) family were opposed to him being adopted. He was from another Chettiar sub-community. Muthiah's family was not well off and he came from a small town. His father largely did menial jobs. In 1999, I made him the MD of Chettinad Cements. I gave him a lot of my wealth. Till my wife died in 2006, there was no trouble. I wasn't aware that gradually Muthiah and his (biological) father slowly and quietly built up holdings in the group without my knowledge, with an intention to oust me. On August 27, 2014, he carried out a coup against me, throwing me out as Chairman of Chettinad Cement. Imagine being thrown out of your company by a usurper.

**Your son's lawyer says a coterie is taking advantage of you, given your old age. Please comment.**

Rubbish. I am not suffering from old age. All I have is some knee and back pain. I am completely capable of taking independent decisions on my own.

**While you have issued a statement saying that you have disowned him, have you done that legally?**

There are two aspects. One is the religious, community part, and I have already done that. The legal part I am told is much more cumbersome and my legal team is looking into it. My wish is that I live one day longer than him. I want to see his dead body go out from here. I want to survive long. I have given up even the one small drink I used to have daily and cut my food intake by 70 per cent to ensure that.

**His team tells me that he has tried reconciling but to no avail...**

He came and fell at my feet in a big drama. He is the biggest hypocrite I have known. He will fall at my feet only to pull me down. This is not about money or wealth. This is a question of trust, a legacy of a proud and generous family.

**Were there differences over your lifestyle and purchase of racing horses?**

Not once. I started racing in 1960. I have more than a thousand racing horses and my horses have more than 500 classic wins. Not one horse was purchased with his money. It is all mine. My father and my brother never objected. Who is this riff-raff fellow to object to my hobbies? I even asked him once about it. He said "no, no, that is your only passion. It is your wealth".

company. Thambi only put an end to all those shenanigans. Agreed that he could have handled the matter better but he is also headstrong," says a former senior employee of Chettinad Cements.

A few Chettiar industrialists *BT* spoke to seem to sympathise with Ramaswamy's predicament. While they refused to be identified, given the close knit nature of this small community, one of them said: "Muthiah could have just waited for a few more years. After all his father is old. Wouldn't you indulge some of the eccentricities of an old man, especially if you could afford it? After all, it is all Aiyaa's wealth and even though Muthiah is his adopted son, he is an outsider."

## Son Stroke

Muthiah, says Ramaswamy, realises that he doesn't have support

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## FAMILY TREE

A snapshot of the illustrious Chettinad family

**S.R.M.M. MUTHIAH CHETTIAR**

- **CHIDAMBARAM CHETTIAR** — Eldest son. Progenitor of the M. Ct. Muthiah Chettiar family
- **RAMASWAMI CHETTIAR** — Second son. Founder of Indian Bank. Member of Madras Legislative Council
- **ANNAMALAI CHETTIAR** — Youngest son. Founder of Annamalai University. Rajah of Chettinad
  - **M.A. MUTHIAH CHETTIAR** — Chairman of Justice Party, first mayor of Madras
    - **M.A.M. MUTHIAH**
      - **M.A.M.M. ANNAMALAI** — Adopted son
    - **M.A.M. RAMASWAMY**
      - **M.A.M.R. MUTHIAH** — Adopted son and head of the Chettinad Group
  - **M.A. RAMANATHAN CHETTIAR**
  - **M.A. CHIDAMBARAM** — Founded SPIC Group, President of BCCI. Chennai stadium is named after him
    - **A. C. MUTHIAH**
      - **ASHWIN C. MUTHIAH**
  - **LAKSHMI ACHI***
    - **P. CHIDAMBARAM** — former finance minister of India

*The list of family members is not exhaustive

A file photo of M.A.M. Ramaswamy (left) and M.A.M.R Muthiah

from the community – the reason why he started a community magazine about a month ago. "He never involved himself earlier in the community but now wants to network. Good luck to him. Just three of the 12 chief guests mentioned in the invitation list turned up for the launch," says Ramaswamy.

If it had been just about the sacking of some employees and servants, the Chettinad Group would not have been in trouble. But Ramaswamy's allegation of a threat to his life highlights the gravity of the situation. The advocate representing him, M. Murali, dismisses all the charges. "Rajah Sir is being misled by a small coterie of palace employees and hangers-on who have vested financial interests. My client has nothing but respect towards his father. He seeks only reconciliation and good relations with him. These vested interests are taking advantage of the advanced age and ill health of Aiyaa for their own pecuniary benefits," he says. "They may do whatever they want to do in the community or at a temple, but legally my client is the son and heir to Aiyaa."

Murali claims that Muthiah even fell at his father's feet to reconcile. Another source sympathetic to Muthiah, who also did not want to be identified, says: "Even Aiyaa's brother's wife Meena Muthiah adopted a son, Annamalai. They are also not on speaking terms. This family seems to believe that just because they are rich, they can adopt or disinherit according to their whim." *BT* could not independently verify whether there were any differences between Meena Muthiah and her adopted son. Ramaswamy dismisses any such claim and says his sister-in-law has excellent relations with her adopted son. It is not clear what Meena Muthiah received as her share of inheritance when her husband died but according to data from the Ministry of Corporate Affairs, she has a minority stake in some group companies.

Ramaswamy's lead counsel, A. Nagarajan, says his team is examining all procedures to see whether an adopted son can be disowned legally. Nagarajan also says that the authorities should act more diligently to protect his client's interests. "While Aiyaa might have the legacy and heritage, authorities know all the wealth today is controlled by Muthiah. They will be careful in how they move."

Till the issue is resolved, the sprawling lawns of Chettinad Palace, which has witnessed many a momentous occasion (including the controversial wedding of Jayalalithaa's foster son V. Sudhakaran), will be desolate. Ramaswamy is determined, however, to fight to the finish to save "his family's name, honour and legacy". ◆

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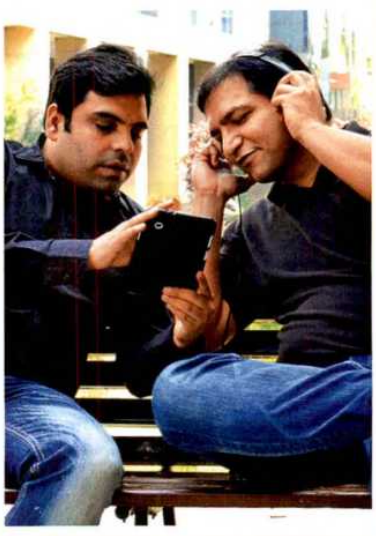
# The 10 Coolest Start-ups of 2015

**1 SHOPCLUES** The e-commerce marketplace has managed to create a space for itself in the hyper-competitive online retail industry

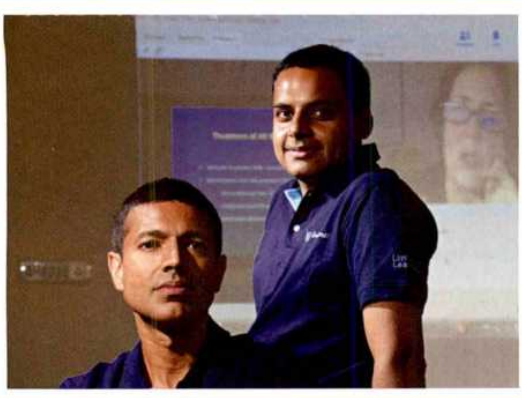


**5** YEAR-OLD START-UPS RANK

**2 EDUREKA** Edureka offers 50 live courses and 25,000 students have attended its virtual classrooms so far

**2 MYSMARTPRICE** The online platform helps people find products in nearly 250 categories and provides price comparison in 100 segments

**4 JUNOTELE SOLUTIONS** The Bangalore-based company is making it easier for its users to make micropayments and has tied up with several telecom operators in India and overseas



**5 LINKSTREET LEARNING** The provider of technical backup in the online education space aims to go global

**1 LIMEROAD** The company allows shoppers to create their own look - on a virtual scrapbook - using products from 1,500 vendors on its site

**3 HAYGOT EDUCATION** The company's Toppr.com is an online exam preparation platform that has more than 1.5 lakh users

**3** YEAR-OLD START-UPS RANK

**2 FRAMEBENCH TECHNOLOGIES** The company sells an online file collaboration software and has over 1,000 clients globally

**4 HACKEREARTH** The Bangalore-based company wants to make the recruitment process in tech companies transparent and meritocratic

**4 CULTURE MACHINE MEDIA** The digital content production company has 350 channels in its network and clocked 400 million views in 2014

# 5 FIVE-YEAR-OLD START-UPS RANK

## Linkstreet learning

Vikram Ramakrishnan remembers the moment when he wanted to become an entrepreneur. As the India operations head of consulting firm Booz & Company, he was at the Trident to meet a client on November 26, 2008, the day Pakistan-backed terrorists mounted an attack on Mumbai, killing 164 people. The next few days were traumatic for Ramakrishnan. "While the Oberoi attack was still on, I had sworn to myself that if I came out alive, I would do things I had always wanted to do."

He survived the Mumbai attack, and by 2011, was well on his way to realise his dreams. Along with his wife, a psychiatrist, he set up a children's academy in the Erode-Coimbatore belt in Tamil Nadu and also started working with government schools in the region to improve the overall quality of education. However, lack of quality teachers for Science, Maths and English became a challenge. That was when networking equipment company Cisco, which was working on video-based learning solutions as part of its corporate social responsibility, offered to help. Arun Muthukumar, a family friend and an engineering professional who had returned from the US after a stint with Lucent, was heading the initiative for Cisco.

Soon, Ramakrishna and Muthukumar decided to join hands and recruited a team of teachers who were excited about taking classes through video conferencing from faraway locations in Tamil Nadu and neighbouring areas, including Bangalore. "The impact was powerful. The students sat on the floor as the teachers interacted with them from a big screen a few feet away. Absenteeism came down to almost zero and the performance of the students improved dramatically. In fact, they were also ready to attend classes during summer holidays and weekends," says Muthukumar. Cisco donated a few computers, while the two friends paid for other expenses. "Initially the focus was not to commercialise it, but was more of an effort to give back," says Ramakrishnan. However, in March 2011, the duo started setting up the back-end infrastructure to provide online education solutions, and Linkstreet Learning was born.

"In the very first year we realised that selling our concept to government schools was a huge challenge, while private schools saw value. We started a white-labelled platform, which would enable end-to-end offering of courses, including back-end technical support." For instance, when Dr. Sunita Maheshwari, a renowned cardiac surgeon, wanted to offer an online course in paediatric cardiology, Linkstreet provided the platform for students to sign-up, pay for the course fee, take tests and get assessed. It also recorded the proceedings of the classes so that the students could access the lessons on their computers, tabs or even smartphones. Linkstreet works on a subscription-based Software as a Service (SaaS) model.

Now, several other academic institutions, including ISB and IIM-B, have signed up with Linkstreet. Says Madan Mohan Raj, Chief Programme Officer - Executive Education, IIM Bangalore: "We have been working with Linkstreet for over two years now. They are a set of young professionals, who have in-depth understanding of the entire value chain in the online education space."

Linkstreet is also targeting the corporate learning space. "As companies go global, their training needs will be spread across geographies and this will create opportunities for us," says Ramakrishnan. The company has already started working with Columbia Asia, Thomson Reuters and Capillary Technologies.

In December 2014, Linkstreet raised an undisclosed sum of money from Faering Capital, which is co-promoted by HDFC Chairman Deepak Parekh's son Aditya. Says Sameer Shroff, Co-founder and MD, Faering Capital: "Linkstreet's innovative low-cost, cloud-based product is solving a real pain point for enterprises and significantly reducing logistical efforts and training budgets."

Linkstreet has also inducted people like Ganesh Lakshminarayanan, MD of Big Data analytics firm Mu Sigma, on its board. "It's about making learning personalised and entertaining. It is a category-defining company that will transform learning across the spectrum," he says. While Linkstreet has some competition in Wiziq, Blackboard and LumQ, the early-mover advantage gives it an edge. "We have been profitable since the beginning but the recent fund infusion will help us scale faster and go global." The company's employee numbers have more than doubled from 21 to 50 in the past six months. For now, Linkstreet is poised to go places. ◆

*@venkateshababu*

Interview with Arun Muthukumar and Vikram Ramakrishnan at **businesstoday.in/startups2015-linkstreet**

Coolest Start-ups

THREE-YEAR-OLD START-UPS RANK

1

LimeRoad

# DIFFERENT LOOKS

LIMEROAD.COM'S UNIQUE PROPOSITION FOR WOMEN'S FASHION MAKES IT A STRONG CANDIDATE FOR THE LONG HAUL. By TASLIMA KHAN

SHEKHAR GHOSH

**What's in a look? A lot, actually. Especially if you are a woman. There's the dress. And then there are the accessories. Wait! We forgot the shoes... and quite a few other things really. Besides, no woman would be caught dead in last year's fashion. Finding the right products to construct a 'look' is a challenge for women – one met by painstakingly trawling through shops in market-places and malls. Then there are fashion websites such as Jabong and Myntra. And then there is LimeRoad.**

**LimeRoad works on a simple premise. It allows you to create your own look – on a virtual scrapbook – using products from 1,500 small vendors on its site. And share it with others. If you're not the creative type, you could 'buy' a look created by someone else. You could also discover styles by subscribing to**

Interview with Suchi Mukherjee and Ankush Mehra at
businesstoday.in/startups2015-limeroad

LimeRoad's feed or follow people whose concoctions you like.

This model works well for everyone – the creator of the look gets a kick out of showing off her creativity, besides getting reward points; the buyer is happy as she gets a full fashion package; the vendors rake in the moolah because when one 'look' is sold, more than one product is sold; and LimeRoad cheers on because more products sold equates to more commission!

Despite its unique business model, LimeRoad, which is registered as AM Marketplaces, looks puny when compared with market-leading fashion websites Myntra (now part of Flipkart) and Jabong. Data from the Registrar of Companies show LimeRoad clocked ₹2.6 crore revenue in 2013/14, up from ₹1.1 crore the previous year. In comparison, Myntra was at ₹552 crore and Jabong at ₹527 crore in 2013/14.

But Suchi Mukherjee, founder and CEO of LimeRoad, is upbeat. "Women fashion customers come back to the LimeRoad mobile app 85 times a year on average, which is the highest in the industry," says Mukherjee, 41, a former managing director at one of UK's largest online classifieds sites Gumtree, who has also had stints at eBay and Skype.

All fashion vendors realise that a fashion purchase is more an experience than a mere transaction and, therefore, content is crucial. So, while Jabong plays up imagery – letting users see models walk the ramp with every dress they click on – Myntra has a content team to create lookbooks, celebrity interviews, style tips and trend alerts. LimeRoad leverages its users to create looks through its scrapbooks. "The way women consume fashion is different," says Anshoo Sharma, Principal at Lightspeed Venture Partners, an early investor in LimeRoad that invests in India out of a $1-billion fund. "They love to browse, mix and match even without buying, and want to come back to do so again and again."

The community of scrap-bookers on LimeRoad is growing fast. From creating around 20,000 looks a month a year ago to two million a month now, users have taken the total number of looks on the platform to 20 million, says Mukherjee. Today, there are 40,000 active shoppers on LimeRoad.

Starting out from its investor Lightspeed's Delhi office, LimeRoad had a humble beginning in 2011 with three co-founders: Mukherjee; Ankush Mehra, who handled supply chain at Reliance Industries and Metro Cash & Carry; and Prashant Malik, who earlier worked with Facebook. The company formally launched in December 2012. It has raised $50 million from marquee investors like Tiger Global, Lightspeed and Matrix Partners.

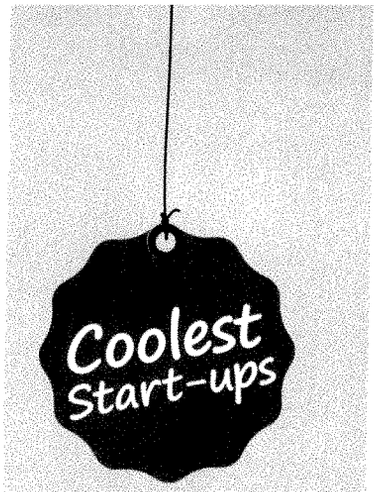
LimeRoad, which operates on a marketplace model, keeps its cash burn low. Logistics is outsourced to partners like Aramex, FedEx and BlueDart. Over 100,000 stock-keeping units from 1,500 vendors are managed by four people. There is no sales force and the total team strength is 200, and most operations are technology-driven. The company sees 85 per cent of its gross merchandise value (or GMV, the total value of products sold) coming from organic traffic, and the remaining from paid marketing efforts. It declines to give actual numbers.

Tiger Global has also taken bets on Roposo. The fashion discovery site allows women to post selfies or bloggers to write content on their platform. One can post a query and get recommendations from other sites such as Jabong. "We want to take search and discovery for women's fashion to the next level," says Mayank Bhangadia, co-founder of Roposo, who claims to have achieved a million page views a day on Roposo.

A Google report pegs the Indian online fashion market at $35 billion in the next five years, roughly 35 per cent of the e-commerce market. Currently, most companies offer discounts to achieve GMV figures. But gradually prices will stabilise. That is when customer engagement will begin to matter. "We are still at day one in lifestyle, unlike other segments like electronics where there are just five big manufacturers to choose from," says Mukherjee. "The biggest e-commerce platforms have less than one per cent of millions of SME vendors online."

There is time – and space – yet for LimeRoad to flourish. ◆

*@KhanTaslima*




COMPANY NAME: **LimeRoad**

LOCATION: **Gurgaon**

FOUNDERS: **Suchi Mukherjee, Ankush Mehra, Prashant Malik**

STARTED IN: **December 2012**

BUSINESS: **E-commerce**

INVESTORS AND FUNDING: **Tiger Global, Matrix Partners, Lightspeed Venture**

BIGGEST CHALLENGE: **Logistics infrastructure**

'COOL' FACTOR: **Allowing users to create different looks through scrapbooks**

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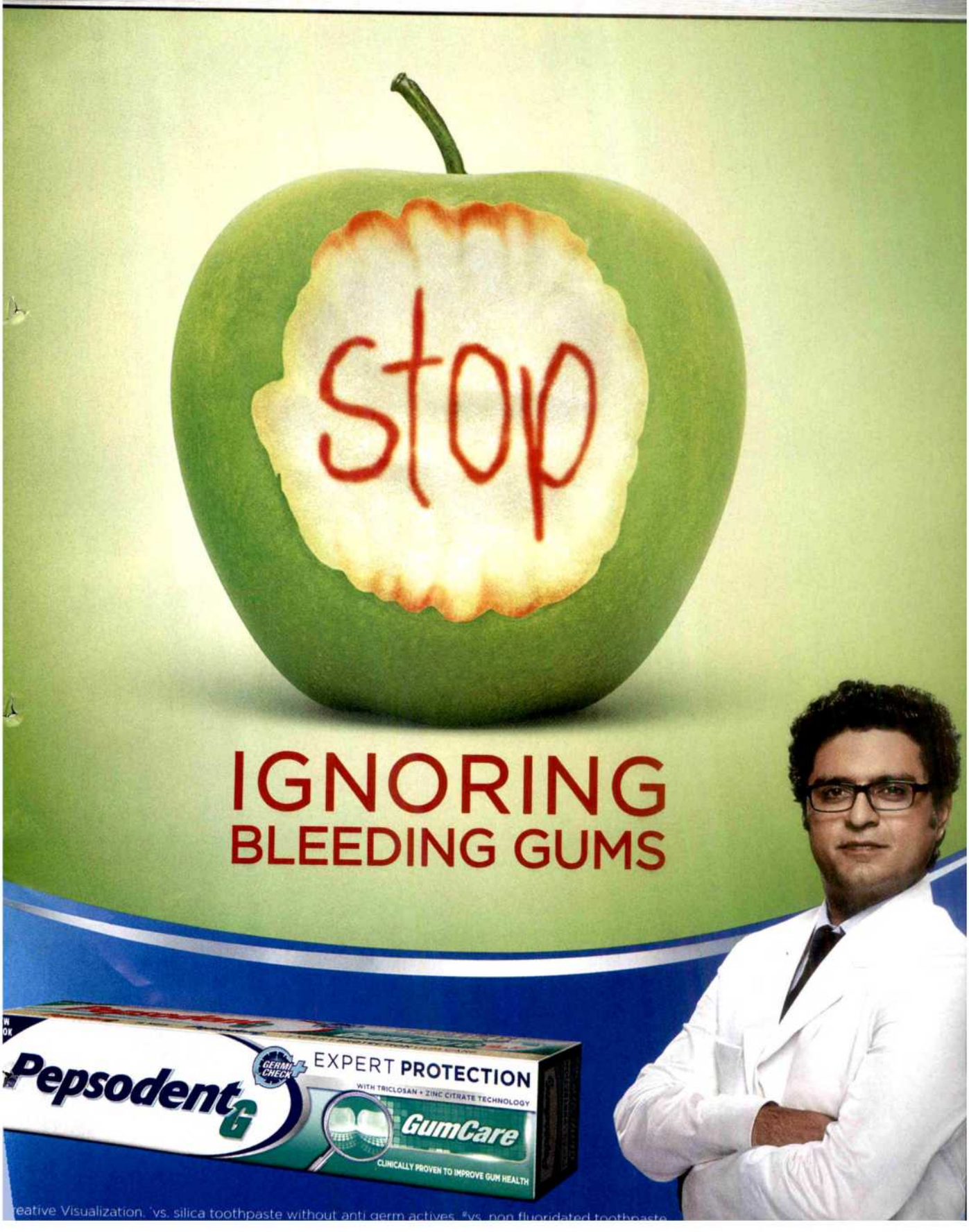


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# CONNECTING PEOPLE

WITH ITS UNIQUE ONLINE FILE COLLABORATION SOFTWARE, FRAMEBENCH ALREADY HAS A BEVY OF CLIENTS AND BIG EXPANSION PLANS. By P.B. JAYAKUMAR

YUSUF KHAN

Coolest Start-ups

THREE-YEAR-OLD START-UPS RANK

# 2 Framebench Technologies

Framebench Technologies has a spartan set-up. It works out of a modest three-bedroom apartment in a suburb of Pune. The office has little else apart from nine bean bags, three tables, laptops and a music system. There are five programmers. The rest of the staff is marketing personnel. The core team is made up of graduates from BITS Pilani, including Rohit Agarwal, the 25-year-old CEO and founder.

From this establishment in Pune, Framebench services over 1,000 clients across the globe. Its top customers include HBO, Prime Focus Studios, Unilever, the Republican Party of the US, Kenwood, Star TV and iSenta. It sells a unique product "Framebench" – an online file collaboration software that allows any video or digital file to be shared among any number of people simultaneously. Any suggested changes to the file can be discussed in a live interaction. "The advantage is that you don't have to download the files again and again, and you can also view them in asynchronous mode (a comment or file posted can be viewed later)," says Agarwal, a 2012 chemical engineering graduate from BITS Pilani.

Framebench is an example of how good mentoring and angel investor support helps in moulding a business venture. "We liked the Framebench founders' vision to make visual collaboration seamless," says Sanjay Nath, Partner at venture fund Blume Ventures, an investor in the company. "In the past two years, their product and collaboration platform evolved rapidly to capture customers in global markets. We are looking ahead to Framebench following in the footsteps of other leading India-based product companies in the space like InMobi and Druva."

Initially, the Framebench software was offered free but in the past six to seven months the company has developed a subscription-based revenue model for direct customers and revenue

# 2 Framebench Technologies

Interview with Rohit Agarwal at businesstoday.in/startups2015-framebench

sharing or user-based model for partners. "Initially, we approached only production houses and design studios and now our product has been accepted by over 1,000 companies, including legal houses," says Agarwal. Framebench now charges $50 for a team of about five people for a month with a limit of 120 files. It has around 30 enterprise clients, who pay $2,000 a month.

Framebench has competition from companies like InVision App, Box Viewer and Proof HQ, but its products are targeted only at the animation and visual communication industry, says Agarwal. Framebench can be used across industries, he asserts. "Framebench saved us two weeks of time per project and our team loves it," says Vasyl Rabosyuk, Director, Technology, Ohio House Republican Organizational Committee.

Coolest Start-ups

COMPANY NAME: Framebench Technologies

LOCATION: Pune

FOUNDERS: Rohit Agarwal, Vineet Markan

STARTED IN: 2012

BUSINESS: Online file collaboration software

INVESTORS AND FUNDING: Blume Ventures, Maneesh Bhandari, Anuj Pulstya; angel funding

BIGGEST CHALLENGE: Hiring, how to acquire scale at every stage

'COOL' FACTOR: A tool that allows any digital file to be shared together with any number of people

## Starting up

"I have not taken a single rupee from my parents for my business," says Agarwal, who belongs to a Delhi middle-class family. His mother is a home maker and father Sandeep is head of sales at BTW, a snacks chain. Agarwal says his passion has always been programming and he wanted to become an entrepreneur despite joining BITS Pilani for the chemical engineering programme.

That's why he joined a six-month course on creating and leading an entrepreneurial organisation in his second year at the institute. In the third year, Agarwal got admission to a programme on new venture creation sponsored by the alumni of BITS Pilani. Among four groups of four students each, Agarwal's team set up Anaya Labs, focused on animation and graphics space. The alumni of BITS mentored the venture, besides offering financial help of ₹50,000. Soon, they won the first prize of ₹5 lakh in the *Power of Ideas* contest. All this money was pumped into developing their visual tool, later called "Framebench".

Agarwal and his BITS Pilani colleague, Vineet Markan, then joined Crayon Pictures, an animation studio in Pune, for internship. Agarwal's job in the research and development wing was to set up a simple online tool that would help directors in Pune communicate live with clients in Europe. Crayon Pictures became their first client, paying a cheque of ₹30,000 for the product, Protean, a real-time tool for feedback of videos.

The big break came when he got selected for 'i-Acceleration', an incubation centre for 10 start-ups, an initiative of IIT Gandhinagar. The institute gave ₹5 lakh seed capital, besides guidance and infrastructure, to Agarwal and his team. The funding was used to develop Framebench.

In March 2012, Agarwal and Markan launched Framebench Technologies, a company registered in Delhi. Soon, help came from angel investors such as Maneesh Bhandari and Blume Ventures, which invested in and exited several companies, including TaxiForSure and ZipDial. Bhandari and four others have together invested over ₹80 lakh in Framebench, says Agarwal.

The online file collaboration software was launched in 2013 but by that time Markan had left to start his own venture. Agarwal and his team of four moved to Pune to tap into design and animation studios in the city along with other opportunities in Mumbai. Framebench is now trying customised solutions and integrating its platform with iPad and other mobile devices. "There are billions of files online. People don't have to download them everytime. Framebench will help people view, give feedback and discuss files," says Agarwal.

He now has ambitious plans for his start-up. The company is scaling up and just about breaking even now. It's a big market for the company's products, asserts Agarwal. According to his estimates, the market size is about $2.4 billion.

Meanwhile, the young CEO and some of his colleagues – average age of the team is 22 to 23 years – stay together, and in free time play 'footsoul' (football in a limited space) or go cycling on the hills in and around Pune. "It is fun@framebench," says Agarwal, with a grin. ◆

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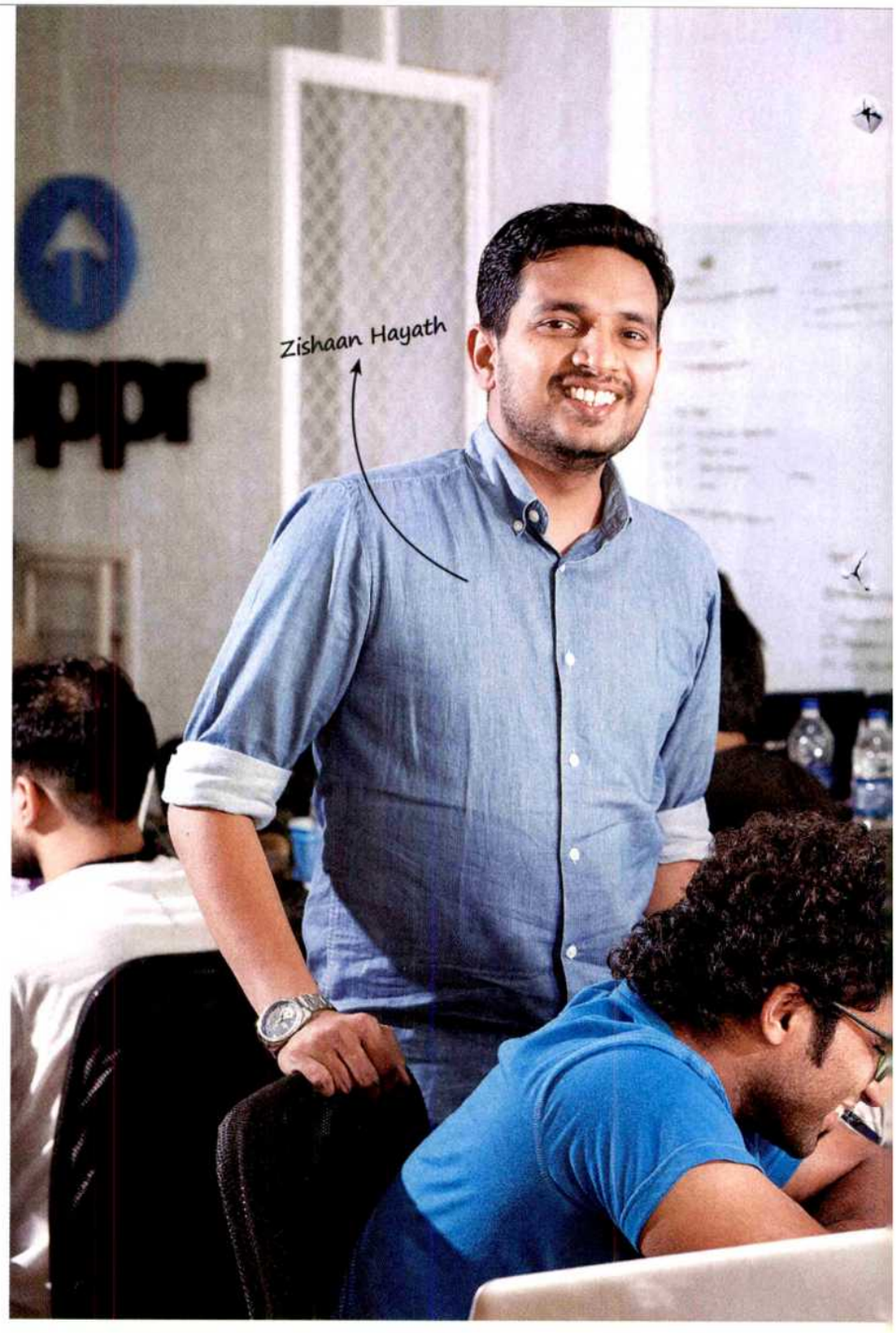
Coolest Start-ups

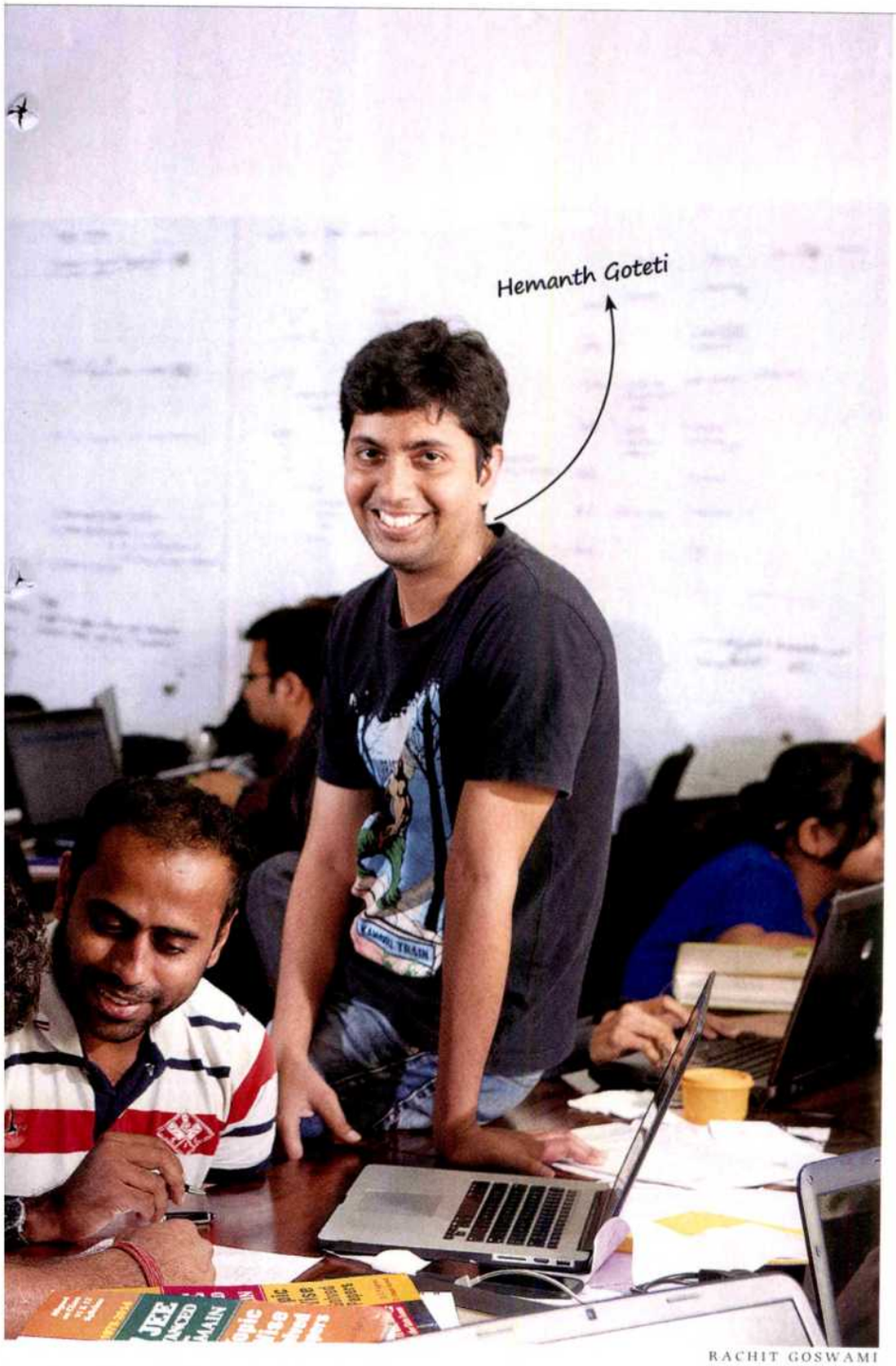
3 Haygot Education

THREE-YEAR-OLD START-UPS RANK




# LEARNING ON THE GO

ZISHAAN HAYATH AND HEMANTH GOTETI OF TOPPR.COM AIM TO HAVE A USER BASE OF FIVE MILLION STUDENTS BY 2017. By AJITA SHASHIDHAR




RACHIT GOSWAMI

COMPANY NAME:
Haygot Education Pvt Ltd

LOCATION:
Powai, Mumbai

FOUNDERS:
Zishaan Hayath (CEO), Hemanth Goteti (CTO)

STARTED IN: April 2013

BUSINESS:
Haygot's Toppr.com is an online exam preparation platform

FUNDING:
Angel investment by Kashyap Deorah; SAIF Partners & Helion Ventures have also invested

BIGGEST CHALLENGE:
Scaling up, reaching remote areas

COOL FACTOR:
Lets students learn at own pace; supplements offline coaching

**If you have a child who is preparing for a big exam, the last thing you would want him to do is spend time on the phone.**

**Zishaan Hayath and Hemanth Goteti, IIT-Mumbai graduates, thought differently. The result was Toppr.com, a preparation site for IIT JEE, pre-medical, and Class X and XII exams.**

**Toppr.com turns a phone into a study aide by helping students prepare for tests through its website and app. "The students can download the app and test what they have learnt in physics, chemistry, mathematics and biology," says Hayath.**

**The company, started in April 2013, says it has more than 1.5 lakh users. The revenue model is part-free and part-paid. Users can access some chapters without paying anything. For the rest, they have to pay ₹4,000 per year. The company says it has 15,000 paid users.**

Interview with Zishaan Hayath at businesstoday.in/startups2015-haygot

# 3 Haygot Education

The duo is confident that the user base will hit the one-million mark by the end of this year, generating a revenue of ₹1 crore. It expects that most users will access content via the app, which is available on both Android and iOS platforms. Right now, around 40 per cent users prefer the app, says Goteti.

The business model looks attractive on the face of it. However, the fact is that most online education companies in India are not profitable. This is because the number of paid users vis-a-vis total users is low. "Most online education companies find it difficult to convert users into paid subscribers. Students sign up but drop out when they have to pay. Brick-and-mortar tutorials that also offer online courses work better than pure online tutorials," says a partner at a private equity fund that has invested in a brick-and-mortar tutorial company.

Deepa Bhushan, director of schools, Billabong High International, a chain of K12 schools, says online tutorials will grow but not at the cost of brick-and-mortar coaching centres. "Online tutorials are emerging as a good source of practice but most students will not give up going to a class just because an online tutorial is offering them practice at a fraction of the cost."

But Toppr.com founders are bullish. "In March, we added 40,000 users, and in April another 50,000," says a confident Hayath, who says they hope to hit the five-million user mark by 2017. "If we succeed in getting five million users, we will become profitable," he says.

Every year, 1.4 million students write the IIT JEE exam while one million students appear for pre-medical tests. Similarly, three million students between Class VIII and X appear for competitive exams. Thus, the market size is more than five million every year.

Coolest Start-ups

The founders are aware of the challenges. Hayath, for instance, concedes that the dropout rate is high in online education, but says that this is true of offerings that try to replace classroom education (like Coursera, an online platform that gives access to courses from various American universities). "Instead of going to a college, you say you will take an online degree. In such a case, the tendency is that you pay for 20 classes but drop out after attending five. But if you are registered in a non-online course and are using online education as a supplement, the dropout rates are low as you are then learning continuously," Hayath says. The other challenges, says the company, are reaching out to users in remote areas and issues of online payments and internet penetration.

"We are not trying to replace classrooms. We are trying to enhance classroom learning," says Goteti. Toppr.com has 100 employees. In addition, it has close to 1,000 IIT students who prepare question papers on a part-time basis. This has ensured that with 100,000 questions, Toppr.com is seven times bigger than the next competitor.

> *"IF YOU ASKED SOMEONE IN 2008 IF HE WOULD BUY A SHOE ONLINE, HE WOULD HAVE SAID NO. BUT TODAY, SO MANY PEOPLE BUY SHOES ONLINE. SO, IT WILL TAKE TIME FOR ONLINE EDUCATION TO TAKE OFF. WE HAVE TO START NOW SO THAT WE ARE READY WHEN PEOPLE ARE READY"*
>
> **ZISHAAN HAYATH**/ Founder & CEO/ Haygot Education Pvt Ltd

The company is growing 50 per cent month-on-month and has raised $2 million from SAIF Partners and Helion Ventures. The growth will continue, say the founders, as it is a matter of time before people turn to online education. "If you asked someone in 2008 if he would buy a shoe online, he would have said no. But today, so many people buy shoes online. So, it will take time for online education to take off. We have to start now so that we are ready when people are ready," says Hayath.

This is not the first time the two have come together. They had set up a mobile commerce business in 2008, Choupaaty Bazaar, which they sold to Future Group in 2010. And this is not the first time they have taken risk in a new business. They had ventured into mobile commerce at a time when the market was at a nascent stage and say that taking risk and doing things outside their comfort zone is in their DNA. "Most of my business decisions are based on what others are not doing," says Goteti. ◆

*@AjitaShashidhar*

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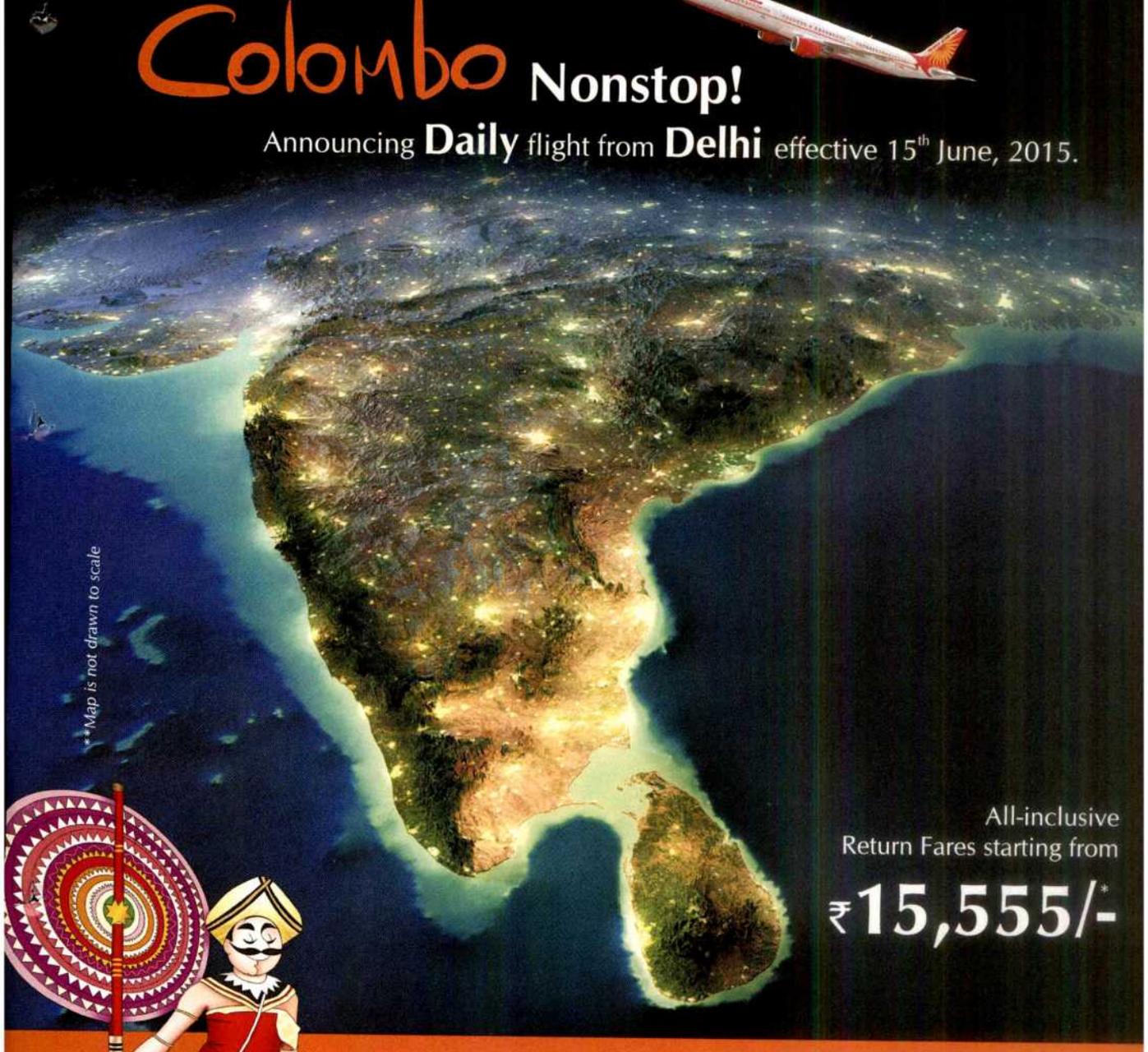

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# NEW-AGE CREATORS

## CULTURE MACHINE MEDIA IS MAKING WAVES IN THE WORLD OF DIGITAL VIDEO CONTENT PRODUCTION. By NEVIN JOHN

Coolest Start-ups

COMPANY NAME:
Culture Machine Media

LOCATION:
Bangalore

FOUNDERS:
Sameer Pitalwalla,
Venkat Prasad

STARTED IN:
July 2013

BUSINESS:
Digital video content production

INVESTORS AND FUNDING:
Tiger Global, Zodius Capital

BIGGEST CHALLENGE:
Fund raising and creation of something out of nothing

'COOL' FACTOR:
Growing popularity among the youth

*We are south of India... This is not a single state... We are here to clear the slate.*
*We are south of India... There's no Madrasi... We are all padoseeee (neighbours).*

Ever since its launch in November last year, the YouTube video has become a sort of an anthem for South Indians looking to point out to their northern brethren that not all Dravidians are the same. The song was created by Culture Machine Media, a digital content production company, for its online channel 'Enna Da Rascala' and has got nearly 1.6 million views so far on YouTube.

Culture Machine was set up in July 2013 by two like-minded entrepreneurs – Sameer Pitalwalla, former director of video and celebrity at Disney India, and Venkat Prasad, former product manager at YouTube. The company now has 350 channels in its network across categories including music, comedy, news, beauty, lifestyle and makeup. It clocked 400 million views in 2014 and adds nearly 100 million views every month. Besides the *We are south of India* video, the company has a number of other hits, including *What if Batman was from Chennai*, *Every Delhi girl in the world*, and *India's Facebook Timeline*. Eighty per cent of Culture Machine's viewers are below the age of 30.

Prasad, 38, spent most of his career as a technical and management executive in the US after his schooling in Chennai. He has worked with big brands in the digital world, including Google and Yahoo! While working with financial software developer Intuit, he dreamed of creating a digital video company. He first met 30-year-old Pitalwalla, a graduate from the University of Westminster, during a conference in California. In November 2012, Prasad came back to India and Culture Machine was launched a few months later.

Prasad says he and Pitalwalla both believed that India would become one of the top five markets globally for new media as the number of Internet users rapidly increases. "We had a similar thought process. Our skill sets were complementary. My understanding of the market was limited. While Sameer chipped in with his marketing knowledge, I brought in technical skills," says Prasad, who is also the company's COO and CTO.

The duo has a reason for selecting video content development over creating text-based social networking platforms. "You don't need to be literate to watch a video on YouTube, unlike Facebook and Twitter," says Prasad.

The company got Series A funding of $3.5 million from Singapore-based venture capital fund Zodius Capital in a year's time. Commenting on the deal, Gautam Patel, MD at Zodius, said at the time that it was betting on Culture Machine not just on the probability of its content's success but also because of technology analytics behind the content. In January 2015, the company raised

RACHIT GOSWAMI

$18 million, in the second round of funding, from Tiger Global, Zodius Capital and Times Internet to strengthen its technology solution and create content. At the time, Lee Fixel, Partner at Tiger Global Management, justified the investment saying that the company had built a technology platform and was the largest creator network in the country.

Culture Machine generates revenues from advertisements, brand solutions and content syndication, which also gets interest from TV channels. The company estimates that the size of the market it can tap into is $1 billion in terms of total TV ad spends that will change as video and audiences go digital. It works with top brands such as Procter & Gamble, Unilever, Havells, Johnson & Johnson, Microsoft, Tata Motors and Fox Star Studios. The multi-channel networks from India include YoBoHo New Media, Nirvana Digital and Homeveda. Standalone channels popular on YouTube include AIB and TVF.

Prasad says while the company aims at building a universe of unorthodox creators for the digital world, it also helps grow them into becoming great artists in the process. The company uses data and technology to find out what Internet audiences want and then creates that content. It has 300 creators in addition to its own production teams. The company will scale up the business by adding verticals, content and creators. It has end-to-end production facilities in Chennai and Mumbai to create video content. As part of the expansion, it is building the third studio in Delhi, says Pitalwalla, also the company's CEO.

Pitalwalla says their digital business will advance due to the technological limitations of TV. "The TV world is evolving. Online video content will be the next big platform," he says. ◆

Interview with Venkat Prasad and Sameer Pitalwalla at businesstoday.in/startups2015-culturemachine

*@nevinjl*

## 4 Culture Machine

THREE-YEAR-OLD START-UPS RANK

# KINGS OF CODING

## HACKEREARTH'S CODING CHALLENGES EXPAND THE TALENT POOL FOR TECH HIRNG AND MAKE THE PROCESS MORE MERITOCRATIC. By VENKATESHA BABU

Coolest Start-ups

4 HackerEarth

THREE-YEAR-OLD START-UPS RANK

Like many other start-ups, HackerEarth, too, was conceived in a college dorm room. That probably explains the hostel-like atmosphere at its Koramangala office in Bangalore. The office is located on the top floor of an electronics godown. It has bare bones furniture and no air-conditioning. But that doesn't seem to dampen the enthusiasm of its founders and other team members.

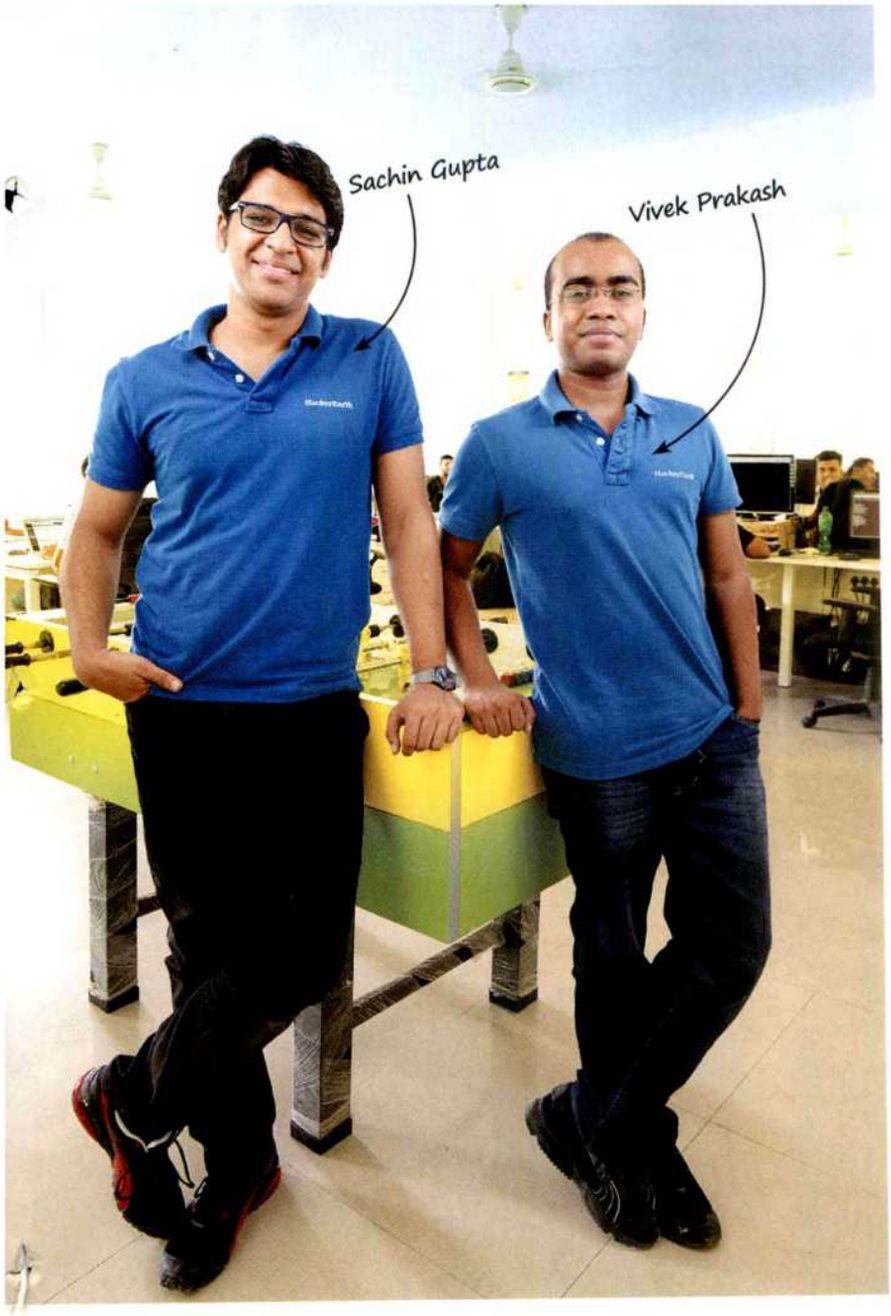
Co-founder and CEO Sachin Gupta sits bang in the middle of the single large room. His more diffident co-founder, Vivek Prakash, sits at the extreme end of the room. There is a lot of banter among the team members and the average age seems to be in the low-20s. Employees and visitors alike swig coffee from paper cups, and a Foosball table near the entrance adds to the tone of the place.

Gupta and Prakash met at IIT Roorkee; the former was in a four-year programme while the latter was pursuing a five-year course. Their common interest in coding brought them together. Gupta, the more articulate of the two, explains HackerEarth's genesis during his batch's placement season in 2011. "We had a brilliant batch mate. All of us assumed he would be placed on day zero. Unfortunately, a week into the placement process, he had yet to get an offer. While reflecting on the process, we realised it was subjective and not driven by data. Recruiters only screened for some keywords. We wanted to make the process transparent and meritocratic rather than based on the school/college you went to," says Gupta, who was picked up by Google from the campus.

The duo initially started a website for people to ask questions and share recruitment-related issues. Gupta worked for a brief while with Google, which he says helped him "network with the right crowd". Vivek, who says he "is a programmer by heart", continued his studies. When the website started getting traction, they realised it could be converted into a business opportunity to help companies recruit better, faster and cheaper. After talking to a host of recruiters, they found that the pain point in recruiting technical talent in India was the screening process. "You advertise for one Java position, there are 100 resumes. How do you screen them effectively?" was a question they had to confront.

That is when Gupta and Prakash came up with the idea of putting up programming challenges. The challenges are set up by expert freelancers or companies looking to hire talent. Anybody could take part in the challenge. What this also did was help companies tap into talent from smaller cities and colleges they typically don't visit for hiring. "It expanded the talent pool," says Prakash, who is also HackerEarth's CTO. "Programming talent has no pedigree of college or school. If I can weed those 100 resumes to six or seven who crack the challenge, then the recruiter can focus more on getting a better fit."

Indresh Gahoi is one such beneficiary of HackerEarth's move to make hir-




NILOTPAL BARUAH

COMPANY NAME:
HackerEarth

LOCATION:
Bangalore

FOUNDERS:
Sachin Gupta, Vivek Prakash

STARTED IN:
January 2012

BUSINESS:
Recruitment at technology companies

INVESTORS AND FUNDING:
GSF, AngelPrime Partners; $620,000

BIGGEST CHALLENGE:
Community building and marketing

'COOL' FACTOR:
Finding top-quality talent for tech companies

ing more meritocratic. The graduate of Madan Mohan Malaviya Engineering College, Gorakhpur, says HackerEarth's coding challenges prepared him well for interviews and helped him get a job with Druva Data Solutions in Pune. HackerEarth's corporate clients, which includes companies like Wipro and Adobe, also feel this method of recruiting is better. "Our partnership with HackerEarth helped us hire some top-notch coding talent," says Asha Poluru, Chief People Officer at US-based tech company Altimetrik.

Gupta says their placement percentage at 20 per cent is among the highest in India. Unlike conventional recruitment agencies, which charge between eight and 15 per cent of a position's annual package as fee, HackerEarth has a flat-fee model based on the annual package. The company estimates the market size it can tap into is roughly $2.3 billion, based on the total business done by technology-aided recruitment companies. This accounts for only 18 per cent of the total recruitment industry in India. The company's revenue has soared 10 times in the last one year, says Gupta, without disclosing the numbers. "We had one salesperson last year. We now have seven and we are adding four more," he adds.

In February last year, AngelPrime Partners invested $500,000 in the company. "HackerEarth is an explosive combination of outstanding entrepreneurs pursuing a monster opportunity," says Shripati Acharya, Managing Partner at AngelPrime. "We see huge potential in HackerEarth to disrupt technical recruiting with a powerful community-driven, skill-based approach." ◆

*@venkateshababu*

Interview with Sachin Gupta and Vivek Prakash at businesstoday.in/startups2015-hackerearth

# IDENTITY CRISIS

## VIP Industries continues to be the market leader in the luggage category but is grappling with a serious perception issue.

By AJITA SHASHIDHAR

Dilip Piramal, Chairman, VIP Industries, has an unusual problem. His 40-year-old luggage brand, VIP (along with Skybag, Aristocrat and Alfa), has over 50 per cent share of the Indian luggage market, but is being perceived as ageing.

When Sohum Bhowmick, 23, visited a Shoppers Stop outlet to buy a strolley for a business trip, he chose Samsonite over VIP, even though the former came at double the price. "VIP is an old and trusted brand but I don't find it sleek. It's a brand my father swears by," he says.

Piramal agrees that a lot of consumers, especially the young, are shying away from the brand. "They want excitement. In my own circle, nobody uses a VIP product. In the beginning, I used to be a bit disappointed, but now I realise that if I was not the owner of VIP I would also ~~not~~ use its products."

In the late nineties and early 2000, VIP had 70 per cent share of the luggage market. This is now down to 50 per cent. The reasons for the slump range from the onslaught of slicker global brands such as Samsonite to a battle of perception that experts say it took too long to come to terms with. But now, it's fighting back. The efforts, led by Dilip Piramal's daughter Radhika Piramal, hinge on entry into the big-yet-untapped handbag market where sales are more frequent and launch of sleeker brands in price ranges where it has traditionally been weak.

"VIP doesn't have an offering in the premium segment (more than ₹10,000 price tag). Its products are priced at ₹6,000-7,000, where they are facing stiff competition from new-age brands such as American Tourister (Samsonite's mid-segment offering) and Delsey. Though these are not necessarily sleeker than VIP, the fact that they are fashionable international brands gives them an edge," says the head of a leading large-format retail chain.

It is not that VIP has been a laidback brand ever. In fact, it has always been up there in terms of brand building. Piramal did not reduce advertising budgets even during the economy's worst phases that sharply pulled down consumer spending. Also, to beat global brands, it launched products of Carlton, a British brand it bought in 2004.

Still, sales have been growing just eight to nine per cent a year, on a par with the industry average. In 2014/15, consolidated revenue grew 7.7 per cent to ₹1,047.7 crore. Profit after tax and exceptional items fell 19 per cent to ₹46.6 crore from ₹57.7 crore the year before. It needs to be mentioned that the 2013/14 profit had included gains from sale of securities and a property in Mumbai.

Samsonite, which entered India in mid-

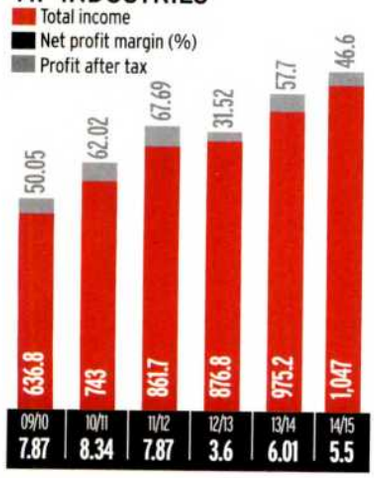
"People want excitement. In my own circle, nobody uses a VIP product"

DILIP PIRAMAL
Chairman / VIP Industries

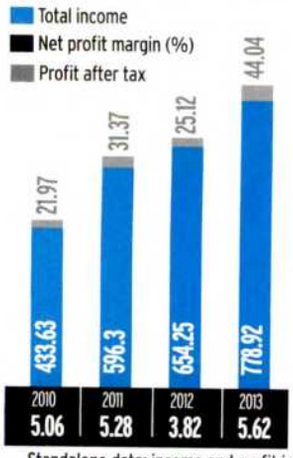
## THE BIG FIGHT

Samsonite has been able to catch up with VIP over the last few years

### VIP INDUSTRIES




### SAMSONITE SOUTH ASIA




Standalone data; income and profit in ₹ crore; Samsonite follows January-December cycle
Source: Ace Equity

RACHIT GOSWAMI

"VIP is a clear market leader only in the sub-₹3,500 segment, where we are not present"

SURESH MENON/ Managing Director/ Samsonite India

nineties, had revenue of around ₹1,000 crore in 2013/14.

### Management Crisis

Dilip Piramal blames the slump partly on changing consumer preferences. For one, there has been a clear dip in demand for hard luggage, VIP's forte. The senior management failed to foresee this change. The company did launch a soft luggage brand, Skybags, in the eighties, but didn't invest enough in it. It died a slow death.

Piramal says after the late nineties, due to the exit of Managing Director Sanjeev Aga – who quit to head Idea Cellular – the company faced a leadership crisis. "We couldn't afford to retain Sanjeev. None of his successors had the foresight to take the business to the next level. We were not able to attract good talent."

The company started losing market share to Samsonite, which by then had realised that the premium end of the market was untapped. It launched American Tourister to counter VIP. To make matters worse, VIP's profitability fell to low single digits at the start of 2000.

Under Aga's leadership, VIP had even forayed into the international market. "VIP wanted to be world class. We were sitting on the same shelves in leading departmental stores in the UK and the US as Samsonite and Delsey," says Aga.

Piramal gives him credit for spoiling Samsonite's plans for the first three-four years. "We took steps to become a top-notch design company

and launched VIP Elanza to counter Samsonite. In fact, despite being market leaders across the globe, Samsonite didn't have a product advantage in India during the initial years," he says.

Later, VIP could not maintain its thrust on cutting-edge products not available in India, says Aga. "VIP is successful, but it is not as brilliant as it could have been," he says.

## Enter the Daughter

In 2008, Radhika Piramal took over as managing director. Though the senior Piramal trusted her predecessor, Sudhir Jatia, whom he had brought in as managing director in early 2000 after acquiring his brand, Aristocrat, he didn't agree with some of his decisions such as keeping VIP away from hypermarkets and re-launching Skybags as a discount offering, especially when research indicated that VIP was being looked upon as an ageing brand and re-launching Skybags as a youth product would make more sense.

An MBA from Harvard Business School, the first thing 36-year-old Radhika Piramal did after entering the business was to make VIP contemporary and offer variety. To bring in an international touch, she launched Carlton. In 2012, she re-launched Skybags as a youth brand, and brought under it a host of products such as backpacks, which appeal to the youth. "The first strolley in the Indian market was from Skybags but the brand somehow lost steam. My goal is to offer enough choice so that consumers don't have to go anywhere else," she says.

## Challenges Galore

Radhika's entry, says her father, breathed fresh air into the company. "The best thing was that she was able to attract good managers. People were again willing to work with VIP."

But the company has been lying low for too long. The competition has covered a lot of ground. In the ₹2,000-odd crore organised luggage industry, Samsonite has over 90 per cent market share in the premium category (over ₹10,000 price tag). This category accounts for around 10 per cent market. VIP does not have a presence here. In the ₹4,000-10,000 range, VIP is neck-and-neck with Samsonite's American Tourister brand, though Samsonite Managing Director Suresh Menon says they have an edge over VIP even in this segment. "Skybags starts at ₹2,000 and not ₹4,000. VIP is a clear market leader only in the sub-₹3,500 segment, where we are not present. Therefore, if you ask me about market share, I will refuse to answer."

One of the biggest hurdles in growth of the industry is that repeat purchases are few. Therefore, globally, Samsonite has been trying to position itself in the premium category by acquiring brands peripheral to the luggage industry. These have been contributing 12-15 per cent to its revenue for the last four-five years.

In 2012, it acquired High Sierra, which makes luggage and accessories required for trekking, hiking, etc., and launched the brand (priced between Samsonite and American Tourister products) in India. In 2013, it acquired Hartmann, a luxury luggage brand, and opened Hartmann stores in Mumbai, Bangalore and Delhi.

"We recently acquired French brand Lipault, meant for women. It has vibrant colours and soft textures. We are launching it in India in August. We are also looking to acquire local brands, especially in the sub-₹3,500 segment," says Menon.

Though Piramal is proud of creating brands for various segments, marketing gurus don't agree with his strategy. When one has six brands, each has to be positioned differently. VIP, says a senior brand specialist, has done just the opposite. "They brought in Carlton at the premium end but killed it by discounting it repeatedly," he says. In fact, if one were to walk into a VIP store and ask the salesman the difference between Carlton and VIP, it is unlikely that he would know as pricing is identical.

Radhika Piramal doesn't agree. "VIP has a clear brand portfolio for all segments. Carlton is our premium

> "My goal is to offer enough choice so that consumers do not have to go anywhere else"
>
> RADHIKA PIRAMAL/ Managing Director/ VIP Industries

offering, aimed at the professional business traveller who prefers to use international brands," she says. Carlton is priced at ₹ 6,000-15,000, compared to the ₹3,000-8,000 range for other VIP products. "Carlton is growing 30 per cent year-on-year," she says.

The company, says the brand specialist, has made another mistake. It sells Carlton and VIP at the same stores. "It is important for Carlton to have a separate identity so that consumers understand what it stands for. They have confused consumers by selling VIP, Carlton and Aristocrat, which is their mass brand, in the same stores."

Here again, Radhika Piramal has a different take. "We view the Indian market through a brand lens, not a retail-only lens. Our company's strategy is to advertise our brands and ensure wide availability, made possible through VIP's distribution network." She says restricting Carlton to a few exclusive stores will limit sales, although setting up exclusive stores is also a part of the company's strategy for the future.

## Move to Handbags

With the luggage industry growing at just eight to nine per cent a year, it is mandatory to diversify. While Samsonite has moved into specialised luggage, VIP has chosen the handbag category with Caprese. The Piramals felt that unlike luggage, which is a one-time buy, consumers don't shy away from owning multiple bags. Also, it is an unorganised market with a handful of brands, of which the only one with some scale is the ₹160 crore Hidesign. "There was a clear gap in the branded handbag segment. Hidesign is premium and sells only leather bags. Others don't offer good international styling," says Radhika.

The company, therefore, decided to launch Caprese at mid-premium price-point (lower than Hidesign). "We priced our bags at ₹3,000-5,000. We felt it's the right price to be in so that we can earn some margins and still sell enough," says Radhika.

Marketers say getting into bags is a logical move. They are critical about Samsonite, which is investing only in luggage. The company, some time ago, did get into bags, but quickly withdrew.

Though Radhika is optimistic about making Caprese a ₹100-crore brand in the next few years, her father isn't too happy about the way it has grown since its launch in 2012. "There was no mass handbag brand in the country, but Caprese is taking a bit longer to grow than I had expected," he says.

Dilip Kapur, founder of Hidesign, says the fundamental mistake most handbag brands in India are making is copying not just global brands in style and design but are also adopting names that sound international. "Importing from China may give higher margins, but in the long run they can be successful only if they can create a distinct identity. They can create a successful brand only if they can tell consumers what they stand for," says Kapur.

Radhika Piramal, however, is upbeat about Caprese and hopes it will help her double VIP's turnover to ₹2,000 crore in the next five years. But marketing gurus caution her and say the need of the hour is to think and implement a distinct strategy instead of disparate tactical moves. "By mindlessly advertising and continuously discounting products, the company will cause more harm to itself rather than harming competition," says Peshwa Acharya, former chief marketing officer, Reliance Retail, who is now an entrepreneur.

Whatever the end result, expect a bagful of surprises from India's biggest luggage maker. ◆

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**"Importing from China may give higher margins but they can be successful only if they create a distinct identity"**

DILIP KAPUR/ Founder / Hidesign

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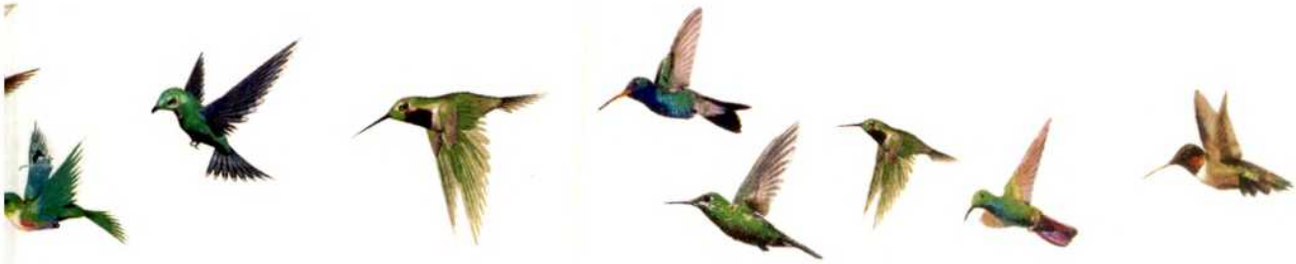

# Why Your Customers' Social Identities Matter

## The way consumers see themselves determines their behaviour – and you can influence that.

By GUY CHAMPNISS, HUGH N. WILSON, and EMMA K. MACDONALD

# WHY DON'T CUSTOMERS DO WHAT THEY SAY THEY'LL DO?

Consider the experience of the home appliance manufacturer Electrolux. On the basis of its customer feedback, it once contemplated offering free washing machines and using smart technology inside them to charge customers by the wash. In prelaunch research, consumers had welcomed the idea for several reasons: The washers involved no up-front purchase costs, used less energy, would be upgraded at no charge, and could be repaired faster and more accurately, thanks to diagnostic capabilities embedded in them. Surely this was the future of laundry? But when a trial was run in Sweden, there was simply no demand for the free washers, and the project was shelved.

Many marketers assume that cautionary tales like this just reflect what happens when you present people with an actual decision versus a hypothetical one. That's part of the explanation, but another factor is at work here: social identity.

People are highly social animals, belonging to many social groups, each with a distinct identity. You can have an identity as a Catholic, a Jew, or a Hindu; as an American or a Russian; as a professor or a musician; and so on. People don't identify with all their groups at the same time, of course. You probably won't identify as a Red Sox fan when you're in church any more than you would feel especially Catholic while taking in a game at Fenway Park.

Social identities are important for marketers because they guide people's behaviour at any given moment. Some behaviour will bolster and support the group, and, equally important, some behaviour will betray the group. It is no coincidence that people in the same profession – successful athletes, say, or chief executives – tend to buy similar cars and read similar magazines. When it comes to a purchase, the group you identify with at the time of the transaction is a very important factor in your decision.

But a customer's social identity at such a moment can't be easily captured through questions on surveys, whether before or after the purchase. Subtle shifts in social context can dramatically change what group we identify with at any instant. Waiting in the business lounge to board a plane, we might reach for *Harvard Business Review*, not just for its content but also, subconsciously, to reinforce our identity as a successful executive. A chance conversation about the background music with a neighbour in the lounge, however, might lead us instead to choose a music magazine to reinforce our identity as a rock fan.

This provides a plausible explanation for Electrolux's failed experiment. Answering questions as part of a consumer study might have triggered a "market research respondent" identity in people, making them try to judge the proposed service dispassionately and with an open mind (behaviour appropriate to that identity). But out in the real world, the washing machines ran up against another well-defined aspect of social identity: Middle class families don't rent appliances – and they certainly do not need to pay per wash cycle, which would seem perilously close to feeding coins into the electricity meters found in some low-income homes. The target consumers didn't want people to question their status as members of the middle class.

Over the past five years we have been studying how social identity shapes customers' behaviour, working with organisations in sectors as diverse as consumer packaged

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goods, retail, professional services, and philanthropy. As we'll show in the following pages, companies can subtly influence which social identities customers will tap into and can even foster new identities altogether with very little effort. Let's begin by examining the dynamics of social identity in more detail.

## How Social Identities Shift

We all have an image of ourselves, or a sense of who we are; this is called our self-concept. A social identity is the part of our self-concept that results from our perceived membership in a group.

We can break this rather abstract-sounding notion into two components. First, we think of ourselves as members of some groups but not others. At any point in time, what we're doing and where we are brings one of our groups front of mind. When exercising in the gym, for instance, we might see ourselves as members of the group of people who stay fit. We probably won't be identifying with people who like drinking wine.

Second, there's a set of behaviours that we recognise as appropriate to a given group. So in the gym we might buy a Gatorade not just for its taste and nutrition but also (subconsciously) to further demonstrate that we are one of the fitness-conscious. Our social identity helps us understand how to act in a context in a way that enhances our distinctiveness and status.

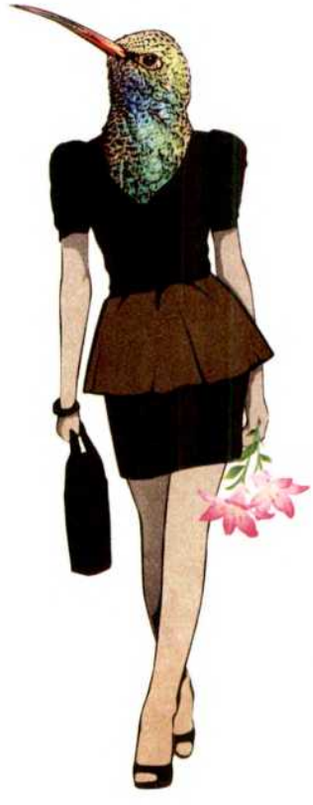
Recent research into why people put solar panels on their houses shows very nicely how this works. You might think that their main motivation is reducing energy costs or concern for the environment. But it turns out that the strongest factor is that other solar-powered homes are nearby. Your neighbourhood represents a powerful social identity, and it colours how you think about decisions related to your home. If you see solar panels on houses around yours, you're likely to feel that you should get them as well.

Different social identities can be triggered with relative ease and speed, as one striking experiment shows. Researchers at Lancaster University in the UK recruited a number of supporters of the team Manchester United, saying that they wanted to interview them about what it meant to be a soccer fan. Half the group was asked about being a Manchester United fan, and the others about being a soccer enthusiast in general.

The fans were then moved in smaller groups to a different venue, where they witnessed a man falling down some stairs in what they thought was an accident but, in reality, was an act by a stuntman. The stuntman in some cases wore a Manchester United shirt, in others a shirt from the team's archrival Liverpool, and finally just a plain T-shirt. The researchers wanted to see whether the victim's group affiliation affected his likelihood of being helped.

The results were unequivocal. If the interviewees had been asked about being a Manchester United fan, they were much more likely to help a victim wearing a Manchester United shirt or a plain shirt than one wearing a Liverpool shirt. If they had been talking about soccer in general, however, the team on the victim's shirt was less important than whether he was wearing a soccer shirt or a plain one.

**Social identities are important for marketers because they guide people's behaviour at any given moment**



This experiment clearly demonstrated how much our social identity depends on context, such as who's around us and what's being told to us. We can think of our array of social identities as radio stations: each of us subconsciously moves the dial until we land on one that is in tune with us and our surroundings. That station helps us understand the social situation most clearly. We can select only one at a time, even though they're all broadcasting. But within moments, we can change stations and assume another identity.

## Managing Social Identities

The implications for marketers are obvious. If social identity shapes decisions, then a company's marketing strategy should encourage customers

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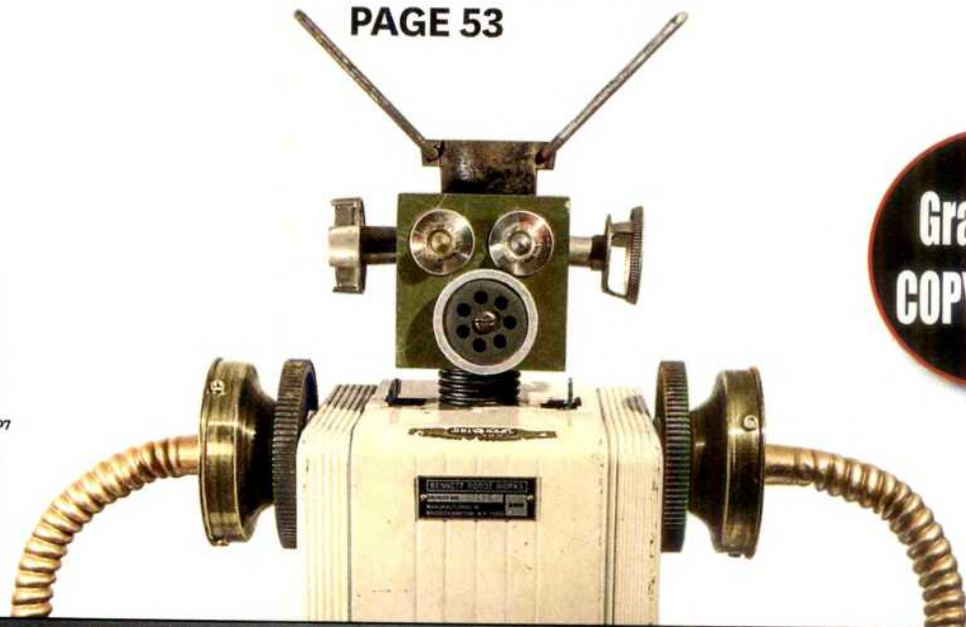

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to tune in to an identity that inspires behaviours like visiting a website, going into a store, buying the product or service, getting more value from it, telling others about it, and helping design a better product.

The first step is to shift from the traditional focus on an individual's attitudes to a focus on the individual's social self. Once you make that shift, it becomes easier to see what identities the consumer might be selecting at the moment he or she encounters a brand. It's intuitive, for example, that a supermarket shopper might have multiple social identities – as a cook, a family member who budgets responsibly, a good host, and so on. Interviews and other research techniques will help you discover the various identities that might be influencing your target consumer's decision.

**A supermarket shopper might have multiple social identities – cook, family member who budgets responsibly, good host – that influence his decisions**

But retrospective interviews won't reveal which identity was selected when. To find that out, it's necessary to observe consumers over time. This can be done by literally tagging along with them during their customer journeys or through technology. In some sectors, insights into social context can be teased out from careful analysis of social media postings. Another good option is real-time experience tracking, a research approach wherein consumers are asked to report in by text message whenever they encounter a certain brand. (See "Better Customer Insight – in Real Time," *HBR*, September 2012).

Unilever has used real-time tracking in its marketing campaigns for the deodorant Axe (known as Lynx in some countries). Its ads focus on how the product makes its target market of young men more attractive to women. Executives were initially baffled about why the campaigns, which were so successful in other countries, did not work well in Italy. Real-time research revealed the problem: Young men in Italy were often still living with their parents, so when they saw the ads on TV at home, their relevant social identity was "dutiful son" rather than "available man." As a result they rejected the ads' message, since it focused on behaviour that seemed uncomfortable in front of mom. The answer was to market to the target customers in the evening, when they were out with friends, through billboards and the "Axe Police," attractive young women spraying passing men with Axe. Same target consumer and same message but delivered in the context of a different social identity.

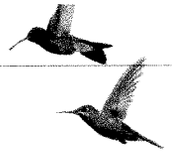
Once the range of possible social identities has been surfaced, the marketer's strategy should be to achieve one of the following goals:

**Boost the signal strength.** When consumers identify with a social group that has a well-defined, positive image, they tend to select products that most clearly broadcast membership in it. Toyota's marketing for its Prius hybrid car provides an example of how to do this well. By September 2014, the Prius accounted for over half the hybrids ever sold in the United States, and its cumulative US sales were seven times greater than those of its nearest competitor, Honda's Civic.

The principal difference between the two models is that the Prius is available only as a hybrid and looks distinctively different from Toyota's conventional gasoline-powered cars. Honda's hybrid, in contrast, came out under a product line that included similar-looking conventional cars. Driving a Prius could only mean that you were driving a hybrid, but other people couldn't tell if your Civic was a hybrid without squinting at its rear to see if it carried a hybrid badge. In other words, the Prius gave consumers who identified themselves as environmental supporters a far better opportunity to demonstrate their green credentials to others, which in turn strengthened this group.

**Help customers tune in better.** In some cases, a company's communications may inadvertently suggest that using the product will clash with behaviours required of members in a relevant social group. This can often be fixed by simply reframing the messaging.

Nescafé discovered this early on in the launch of its first instant coffee in the 1950s. The product was initially positioned as a time-saver: no longer would



## Lessons of the Stanford Prison Experiment

**In 1971, Philip Zimbardo ran what has become one of the most famous and controversial experiments in psychology. In it he recruited university students to take part in a role-playing exercise underwritten by the US military, which wanted to understand sources of conflict between military guards and prisoners.**

**Zimbardo randomly assigned the participants to the role of either guard or prisoner. To his surprise, both groups took to their roles with gusto; not only did the guards rapidly become highly authoritarian, but the prisoners (after an initial rebellion) adopted passive, almost helpless attitudes at the same speed. In fact, the guard behaviour became so extreme so quickly that the experiment was abruptly halted, after only six days, for fear of serious harm to participants.**

**Initially, commentators argued that the experiment demonstrated the pernicious effects of mob rule (it should be remembered that the civil rights movement was happening during this time). But social identity research since suggests a subtler interpretation: Those involved were behaving in accordance with their newly primed social identities of guard or prisoner. More than that, group members were trying to excel in these new identities. Hence, in the case of the guards, a rapidly increasing risk of brutality, torture, and psychological harm forced the experiment to halt.**

**Another lesson to be drawn is that these powerful behavioural changes were triggered very rapidly and required little investment in identity building. This suggests that people are quick to find and relate to new social identities. Creating a new social identity, therefore, is not necessarily an exercise in nation building.**

you have to spend 10 minutes brewing a pot of coffee. It did not catch on. The reason, it turned out, was that saving time and effort in this way clashed with the identity of most women, who during that decade felt pressured to be perfect homemakers for hardworking husbands. So the company changed its approach. Instead of claiming that the new product would reduce the time it took to make your husband coffee, the ads suggested it would help you serve him better coffee and leave you extra time to do more for him. Dated and offensive as this may sound today, the reframing was effective. Sales tripled during the decade and had increased 12-fold by the mid-1970s.

**Add a song to the station's playlist.** Social identities aren't supported by just one behaviour but by a collection of behaviours (or playlist, if you will). Another option for marketers, therefore, is to add a new behaviour to the recognised set. That can be done by suggesting a new goal to the group.

Take Jeep's all-terrain vehicles, which give their owners privileged access to hard-to-reach places. As a long-standing supporter of the Tread Lightly initiative, which urges people to respect, protect, and enjoy the outdoors, Jeep encourages owners to drive responsibly in these environments – leaving minimal tracks in wilderness areas, for instance. Notably, Jeep organises courses in off-road driving skills at Jeep weekends, which are attended by the most enthusiastic Jeep owners.

In this way the carmaker has given the social group of Jeep owners the goal of protecting nature and pointed its members to behaviours in line with that goal. The training is done by more-experienced Jeep customers on a volunteer basis and raises their status in the group. Newer drivers engage in the training and adopt the new practices not just out of environmental respect but to embed themselves more deeply in the group. With minimal expenditure, the programme significantly increases appreciation for the Jeep brand, which translates into recommendations and repeat purchases.

**Find a different station playing your song.** Sometimes customers encounter a product when they've adopted a social identity that promotes behaviours at odds with a product's value proposition. In these cases smart companies look for ways to trigger, or prime, a more constructive identity.

As part of its initiative to reduce global water usage, Unilever markets a fabric conditioner, Comfort One Rinse, that requires far less water than most conditioners do. Objectively, this is a plus in water-stressed parts of Asia, such as India, Thailand, Vietnam, and Indonesia. Yet despite a strong positive response in early trials, the team behind the brand saw neither the expected sales nor a change in water consumption; most customers still used the product with copious amounts of rinsing water.

The reason was that in many of the product's markets, women do their laundry in public spaces. While women were engaged in this activity, their primed social identity was "diligent mother," and the appearance of cutting corners by washing clothes in one bucket of water rather than three did not reinforce it.

To get around this problem, Unilever has sought to prime an identity of "smart, savvy homemaker" in customers through a variety of initiatives. One distributes good-housekeeping guides with tips on saving money and time. Another provides a variety of education sessions to local groups of women while they do their laundry. Also, TV ads focusing less on the formulation of the product and

more on smart women who do washes together as a group reinforce the low water usage as acceptable. These efforts seem to be having an effect, because Comfort One Rinse sales have increased 66 per cent over the past three years.

Sometimes customers using a product or service may not be strongly tuned in to any particular group. Or the group may be defined by a negative experience. Airline travel is a case in point: Most travellers see themselves as sufferers of what is a rather boring experience at best, even in the relative comfort of business class. The answer here is to associate the offering with another, more positive identity.

Delta's Innovation Class programme tunes passengers in to a different, sharper identity. It targets budding entrepreneurs by offering them the chance to win a business-class seat next to a business guru as they travel with Delta. This associates the brand closely with high-performing business players, a social identity both the gurus and the entrepreneurs easily take on. It also transforms expectations about travel. No longer is a trip a dull episode. Instead it becomes a learning experience.

The study results were clear: The members of the groups with the stronger social identities engaged far more in the behaviours the company desired

Social identities are more than a lens for understanding customers' current social behaviour. Marketers can actually create new social identities to both deepen the relationship with existing customers and attract new ones. We'll turn now to what that involves.

## Launching a Brand-new Station

To be sure, the idea that companies can profit from building a community around a social identity is not new. The Harley Owners Group, organised by the motorcycle manufacturer, is a textbook example of how a company can support a base of enthusiasts. Then there's McKinsey's famous alumni group, which plays an important role in winning business for the consulting firm. Companies have long been aware that it's possible to create a shared identity around their products, services, and brands, and have made significant investments in doing so.

All those approaches, however, focus on people who are already customers. In effect, they're tools for managing customer loyalty and getting more out of the current base. In most cases the communities tap into an existing social identity. The idea of going out to create a user group of not-yet customers for a new product that hasn't been branded or launched probably doesn't seem very practical.

But that assumption ignores a key lesson of most of the social psychology research on identity that has taken place outside the commercial sphere. Experiments around group formation suggest that social identities can be created almost at the drop of a hat and with very little effort. Some of these experiments date back to the 1960s and 1970s. Perhaps the most famous was conducted by Philip Zimbardo at Stanford in 1971. (See the sidebar: *Lessons of the Stanford Prison Experiment.*) Creating new social identities, therefore, need not involve a big commitment.

Reflecting on all of this, we began to wonder: Could marketers inspire specific behaviours by quickly creating temporary groups with new and distinctive social identities? If so, marketers would have a powerful tool at their disposal. And if this could be done with new brands that had no previous customer relationships to draw on, any marketer, not just those with established businesses and deep pockets, could use it.

## Creating New Identities (in Just 20 Minutes)

To test this idea, we invented a fruit smoothie brand professing to be both healthful and convenient, and invited consumers to help design launch initiatives for it. The participants were asked to comment on some draft marketing ideas.

The consumers were assigned at random to three groups. Those in the first group were told it was made up of people with superior creative skills, and those in the second that they were simply market research participants. Our aim was to create a stronger social identity for the first group, which was constantly reinforced throughout the experiment. For example, we gave the group a name, "20/20 Creative Vision Group," which was continually on display to members. The idea was that this identity would encourage them to engage in high levels of creative behaviours, in the name of looking good compared with those outside the group.

The third group was given a strong identity in a different way. Its members were told that the firm's goal was to launch a "pro-sustainability" brand, which would be socially and environmentally responsible, while the first and second groups were told that the goal was simply a successful launch. In the end we created two social groups with specific social identities, one tied to a quality (creativity) and one to a goal (sustainability).

The brand team requested from all participants certain behaviours, such as carefully reviewing the marketing materials, committing to buy the product, and promising to volunteer time and pledge donations to charities the brand was working with. We tracked those behaviours and also measured the strength of the consumer-brand relationship at the end of the study.

The results were clear: The participants in the groups with the stronger social identities engaged far more in the behaviours the company requested of them.

What's more, those behaviours appeared very quickly. Participants were allowed to spend as much time as they wanted evaluating the supposed marketing materials for the product launch; on average, it took them 27 minutes to complete the entire exercise, which included reviewing two marketing initiatives and then working through a battery of questions and post-review checks. But among the groups primed with a clear social identity we usually began to pick up evidence of the desired behaviours just 15 minutes in. Overall, about 20 minutes was all it took to build a social identity powerful enough to prompt specific behaviours. Moreover, this effect occurred regardless of the participants' prior attitudes – for instance, in the case of the pro-sustainability group members, whether or not they'd been concerned about the environment. The social identity alone was the driving factor. And these were behaviours that typically are not easily encouraged among consumers.

To put it another way: We didn't need to find consumers with certain attitudes as a precursor to specific behaviours. Our "manufactured" social identities led them straight to those behaviours. And because we got these results with a brand that had not existed in consumers' minds 20 minutes earlier, we believe these effects are within the reach of every marketer.

A few companies have already undertaken initiatives that resemble our experiment. Frito-Lay's innovative Crash the Super Bowl contest, held since 2007, asks consumers to develop their own TV ads for Doritos and post them on a website. The best, as decided by voters on the site, are broadcast during the football game. Presenting a clear goal to the group participants – scoring the top spot on *USA Today*'s Ad Meter assessment of ad effectiveness for the evening – has helped the contest efficiently crowdsource commercials that keep up with expensively produced competition. Crash the Super Bowl spots have won first place on the Ad Meter on three occasions.

The contest is a good real-world example of marketing through the creation of a new social identity. It generates online engagement with the brand over the course of several weeks, as consumers post thousands of submissions and vote on them. It garners a lot of positive media coverage as well. Frito-Lay has inspired a group with a clear social identity tied to creativity, with which the company frequently interacts. Direct competition with ad agencies strengthens the group identity as members strive to secure status and distinctiveness. Who wouldn't want to say they're more creative than the world's leading ad agencies? And that identity transforms the way those people relate to the Doritos brand.

**WHEN MARKETERS** want to get consumers to identify with a product, they typically think of building a community – a long-term commitment that may require a big investment. That can certainly be a valuable strategy. But a richer opportunity may lie in a less obvious lesson offered by the experiments we've just described: It's surprisingly easy to make consumers switch identities and even to give them new ones.

## It's surprisingly easy to make consumers switch identities and even to give them new ones. That presents marketers with a rich opportunity

Much of the noise that disrupts customer communications and brand experiences is, we believe, caused by the constant turning of the dial on a social identity radio. And if that is the case, then by engaging with the tuning process on a day-to-day basis and offering new identities, marketers can clarify and adjust those communications, to the benefit of customers as well as firms. That should be music to all marketers' ears. ◆

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# The Atlas of Strategy Traps

**BCG Strategy Institute has identified 10 traps that companies can fall into, as they explore new opportunities. Here's how to navigate them**

By ASHISH IYER and YASHRAJ ERANDE

The exploration versus exploitation question is an age-old one for businesses. However, in today's business environment, this question has acquired a very intense hue. Indian companies have to take strategic decisions in an extremely complex environment characterised by the emergence of new consumers, employees, technologies, competition and policies. This question has very different implications for a large incumbent compared to a new challenger. In fact, a study of the change in market positions of companies reveals leadership is more fickle today than ever before (see *Continuously Shifting Market Position*). Therefore, striking the right balance between exploration and exploitation has material implications on the very existence of a company.

There are additional layers of complexity for a large incumbent with a relatively successful business model. There is an intense lure of improving existing business which can create substantial value in the immediate term. New bets, however, require the leadership to make difficult strategic choices in an already dynamic environment and typically these bets yield late results. Resources are limited, hence allocating them between existing versus new opportunities is a challenge.

BCG [The Boston Consulting Group] Strategy Institute has identified 10 traps that companies can fall into, as they fine-tune their exploration versus exploitation approach. These traps, and tools to navigate them, are:

**Backyard exploration versus combing the ocean:** The first step toward solving the exploitation versus exploration conundrum is to be clear about where to look. Backyard exploration focuses exclusively on existing opportunities. US auto majors in the 1980s and 1990s were busy sweating existing automobile platforms whereas Toyota launched Prius – now the world's top-selling hybrid electric vehicle. The tendency to focus all resources on existing opportunities is symptomatic of this trap. To steer clear, companies need to create a culture of curiosity. Employees need to be encouraged to explore new vistas in the existing business (depth) as well as explore the adjacent spaces (breadth) – a T-shaped exploration. Companies need to collaborate with partners for continuous innovation. This allows them to continuously scan new ideas with a measured up-front commitment of organisational resources.

Combing the ocean attempts too many experiments superficially. During the mid-1990s in the US and Europe, 'do-a-bit-of-everything' conglomerates suffered a conglomerate discount and underwent deconstruction. Typically, companies stuck in this trap show extreme conglomeration tendencies – nothing is out of scope, synergistic logic across opportunities is weak and incremental return on innovation is not well articulated. To avoid this trap, companies need a clear vi-

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sion linked to their unique sources of advantage. For example, Google redefined its vision from 'creating the best search engine' to 'knowing everything'. Companies need a disciplined portfolio management approach to classify existing and new opportunities into scale-up, manage-for-cash, turnaround and exit categories. Three portfolio lenses need to be deployed – strategic attractiveness, economic attractiveness and parenting attractiveness. A scientific corporate venturing process is a must to generate tangible value from ideas.

**Trapped in the past versus perpetual search:** It is critical to calibrate the right balance for allocating resources between explore and exploit opportunities. Trapped in the past is regressing to seemingly tried-and-tested ideas that worked in an old context, in the face of new uncertainty. Over the last decade, pharmaceutical companies are finding it difficult and prohibitively costly to create blockbuster drugs. Some have responded by doubling down on disease categories where they had previous success. However, their continued struggle with success begs the question whether only mining deeper in areas of past success is prudent. Companies in this trap kill new ideas, partners and talent because of internal inertia. It requires true leadership to navigate this fatal trap. Leadership needs to personally develop tolerance to diversity and invest in acquiring promising ideas, technologies and talent, and ensuring their integration and success.

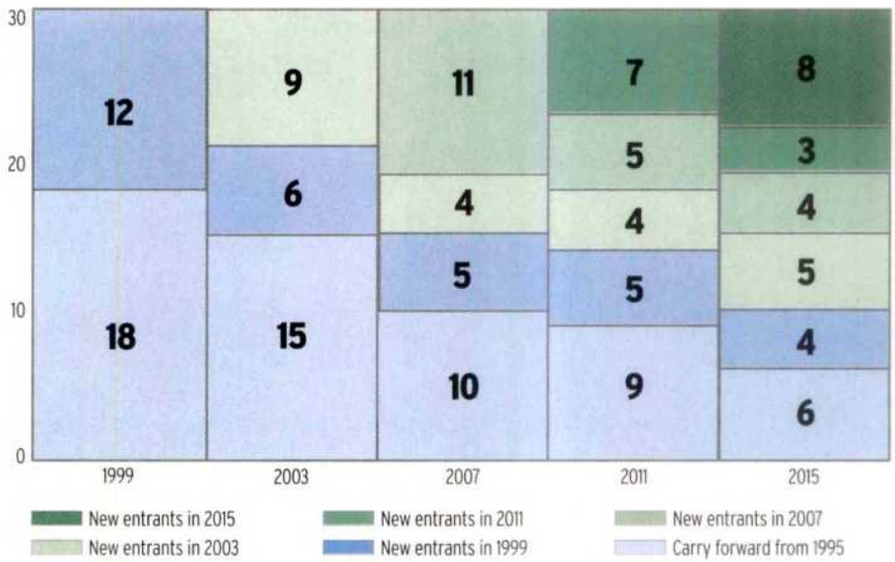
Perpetual search is excessive focus on exploring new ideas with low emphasis on commercialisation. Xerox's PARC lab created some pioneering intellectual property. Microsoft and Apple created billions of dollars of value by commercialising the same ideas whereas Xerox merely created demo-versions. Companies fall in this trap when they link incentives to merely the intellectual exercise. Commercialisation needs to be rewarded and not mere ideation. In a dynamic environment, agile commercialisation approaches are best suited where a 'minimum viable product' is defined in quick iterative cycles and exposed to market within weeks.

**Misjudged harshness versus underleveraged resources:** The question of resource allocation is moot without an understanding of available resources and future requirements. Misjudged harshness is underestimating resources required to be resilient in a harsh environment. PanAm was a pioneering airline in terms of its operating model and was very profitable. It used jet planes across 86 continents and operated a heterogeneous fleet with decentralised infrastructure. During the oil crisis of 1970s, the hidden costs of their model namely, heavy overheads and operating costs, were exposed. Their resources drained faster than they could restructure, eventually resulting in bankruptcy. To navigate this trap, companies need to stress test their business model through scenarios analysis. A scenario is a version of the future that is uncertain but has high potential impact. Existing and new opportunities need to be stress tested under different scenarios to identify resource gaps and interventions required to build resilience.

Underleveraged resources is missing out on opportunities by underleveraging available resources. Apple had cash reserves of $147 billion in 2013. However, it ranked 46th on R&D spend. Today Apple does not seem to have game-changing projects in the pipeline like Google X. There are two approaches to navigate this trap. One is a company-in-company model where a ring-fenced child company is created with the mandate to build completely breakthrough and at times at-

## CONTINUOUSLY SHIFTING MARKET POSITION

### Composition of top 30 BSE companies

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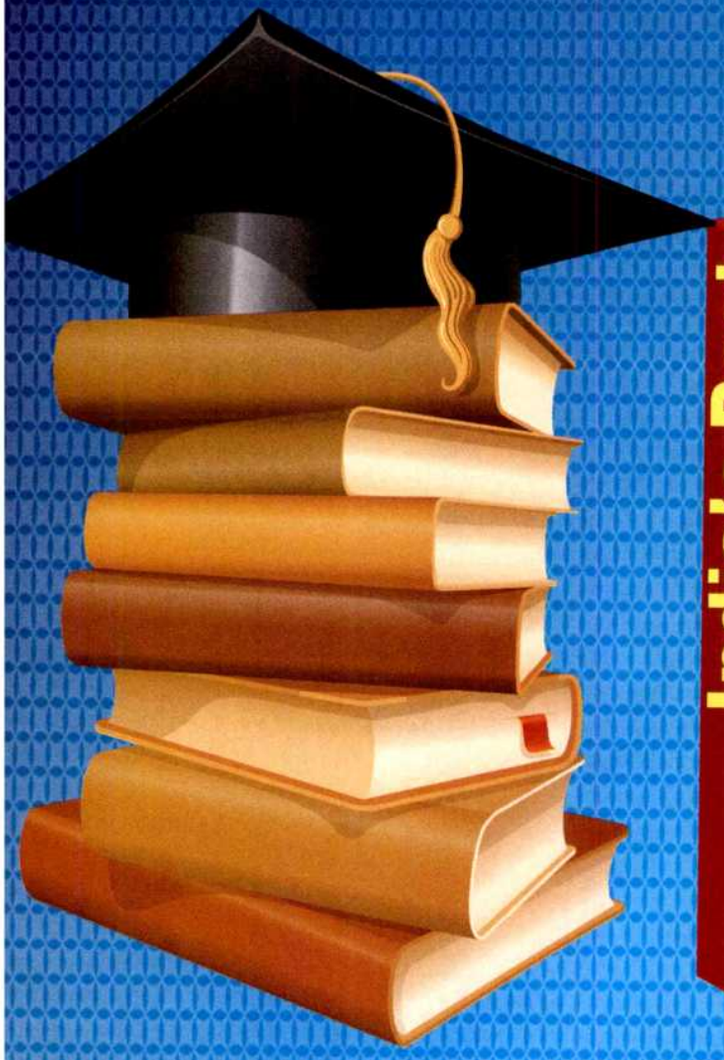

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tacker businesses. The other is an organisational solution where distinct run-the-business and change-the-business teams are created. Change-the-business teams are mandated to launch powerful interventions to transform the existing businesses and build new ones.

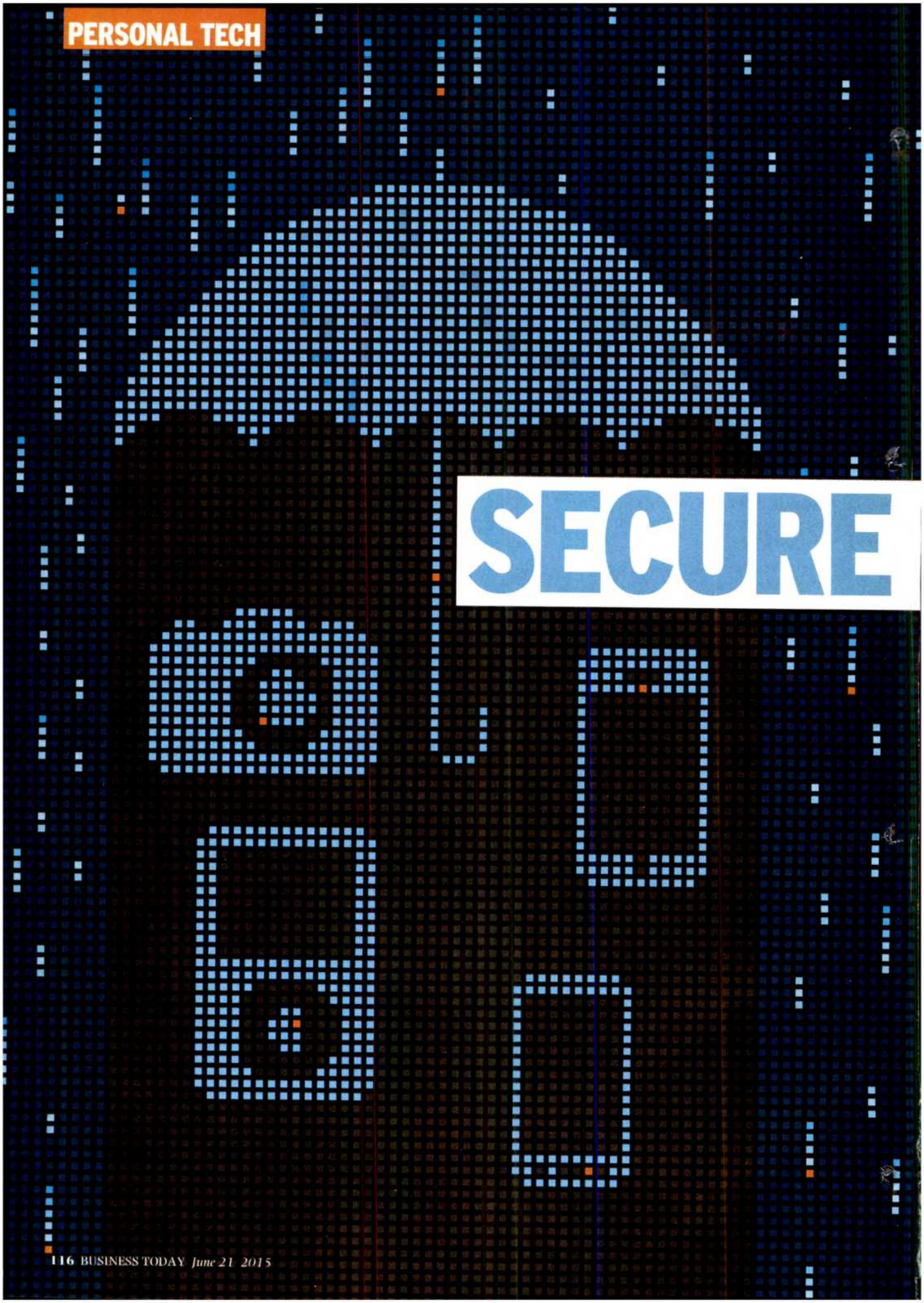
**Drop in the ocean versus risking the ship:** It is critical to ensure that resources deployed against each opportunity are commensurate with investment needs. Drop in the ocean is underestimating long term resource requirements to fully capture an opportunity. When DHL entered the US freight market in 2003, it took on large incumbents UPS and FedEx. To beat them, DHL needed to invest heavily to build scale. While DHL's investment at $10 billion was sizeable in absolute terms, it was inadequate resulting in its eventual exit from the business in 2008.

Companies caught in this trap display a gap between ambition and commitment. This gap is attributable to intellectual indiscipline in the form of poorly written business cases which miss the big picture and make an opportunity appear achievable with unrealistically low investments. To avoid this trap, ideas need to be assessed for scalability and business cases need to reflect the resources required. Equally important is overcoming the mindset challenge where management develops cold feet just before major investment milestones. It helps to sustain the teams that take the opportunity from design to steady state. Early engagement of people ensures emotional connect with the idea and helps the idea survive.

Risking the ship is staying the course when an opportunity ceases to be attractive. To get back in the game, Windows and BlackBerry singularly placed their bets on replicating iOS and Android's ecosystem. However, their combined market share just managed to reach five per cent. Companies caught in this trap display a 'silver bullet' mindset where one big bet is expected to restore competitive advantage. Instead companies need to develop five 'adaptive advantage', which comprises five capabilities, i.e., signal – sense and amplify the right signals; experimentation – economically conduct many experiments; organisation – structurally expose organisational entities and market reality; system – source ideas from the ecosystem; and eco-social – align opportunities with social and ecological context.

**Fixed itinerary versus forgetful wanderer:** If exploration rates exceed or lag the rate of change in the environment, companies can either miss opportunities or burn resources on fads. Fixed itinerary is a static approach towards resource allocation. Kodak's digital camera debacle is well known. However, in 1957 itself, a Kodak engineer had built the first digital camera prototype. Yet, even in the 1990s when cell phones with built-in digital cameras started hurting Kodak, it did not allocate resources adequately to ensure survival.

Forgetful wanderer is falling for the latest trend while ignoring past lessons. During the dotcom bubble, investors destroyed $5 trillion of value by following a fad. Companies that avoid this trap maintain a repository of past exploration attempts. Inputs from this repository are fed into future explorations to inform resource allocation decisions. ◆



# SECURE

# YOUR GADGET

**Insuring your handheld gadgets is almost becoming a norm. The one-time investment can save you from exorbitant repair costs.** By NIDHI SINGAL

Barely a couple of days after buying a Samsung Galaxy S6 for ₹50,000 Rishabh Gupta's heart skipped a beat when he happened to drop it accidentally in a crowded place only to see a cracked screen. The 35-year-old executive working with a multinational firm cursed himself but soon realised that he had chanced upon a lifeline. "The store I had bought it from had insisted that I take an insurance cover of ₹2,499 on my purchase. I was reluctant at first, but then gave in," he says. On retrospection, Gupta was lucky. He saved the ₹9,000 for getting the screen replaced only by paying a nominal fee of ₹499. He is also eligible to make one more claim from the insurer.

Until recently, getting your gadget insured was a tough ask. However, with the high price tags, gadget insurance is almost becoming a norm. Today, you can either get your smartphone or tablet insured over the counter or buy a policy online. These policies cover the cost of things that are not covered under the one-year manufacturing warranty, including damage and theft.

Says Manish Khatri, Partner, Mahesh Telecom: "About 80 per cent of customers buying a smartphone under ₹10,000 are willing to spend ₹500 extra for the insurance. On the other hand, only 50 per cent of those who spend ₹20,000 to ₹40,000 on gadgets are willing to invest in insurance."

Anil Kaushik, Director, Services, Ingram Micro India, estimates that around two to three per cent of smartphone sales in the country is covered under insurance plans. "However, it is expected to grow exponentially," he adds. Khatri agrees: "More than theft, accidental damage and cost of repair are prompting people to opt for these insurance plans."

## Under cover

Any accidental damage, whether it be a broken screen, damaged touchscreen or a short circuit due to moisture, is covered under gadget insurance. If someone snatches your smartphone or you happen to drop it somewhere, the insurance cover will also reimburse you. You will, however, not get a compensation for the entire amount, but it will be based on the depreciation value of the gadget. For instance, most insurers offer 10

ILLUSTRATION BY RAJ VERMA

per cent depreciation on the invoice value for up to six-month-old devices and 25 per cent for an older device.

## Get a cover

You can choose from a host of policies. For example, PickMe India offers a basic plan of ₹599 for smartphones priced under ₹10,000. The premium can go up to ₹1,999 for smartphones worth ₹55,000. These plans cover accidental damage, liquid spillage, burglary and fire, and even allow free pickup and drop facilities. PickMe offers services for all handheld gadgets such as mobiles, cameras, watches, laptops, MP3 players, tablets and even data cards.

Likewise, Protection 365 has tied up with public sector insurer The New India Assurance Company, while Ingram Micro has teamed up with another state insurer, Oriental Insurance Company. Apart from the regular features, Protection 365 offers data backup and bacterial removal services, and allows the customer to get their devices repaired twice a year. Ingram, on the other hand, offers plans in the ₹499 to ₹4,599 range for gadgets priced up to ₹80,000. The company's Cover Plus provides an additional cover of ₹1,000 for misuse of the device in case of a theft, and its Mobile Bill Protection plan pays bills of up to ₹3,000 per month for three months in case of a job loss. It will soon launch policies for laptops, watches and cameras. Syska Gadget Secure is yet another company that offers complete insurance solutions for handheld devices. Just log on to any of the company websites and opt for the policy that best suits you to secure your devices.

## Fine print

While all this may sound like a smart solution to secure your smart devices against damage or theft, you need to know a few things. One, insurance is available for newly purchased gadgets. Two, you will get a four- to 15-day window from the date of purchase to buy a policy by providing a copy of the invoice. Some companies may also ask you to upload images of the device.

Three, the claims process isn't easy. For instance, if you happened to damage your phone because of carelessness, it will not be covered under insurance. But if someone bumped into you and the phone got damaged, it will be repaired without any questions. Similarly, if you forgot your device at a public place, it won't be covered. But if someone snatched your phone, it will be. You will need to fill in the form that came with the policy documents and submit it. Once you receive a go ahead from the insurer, you can take the phone to the service centre for repair. In most cases, you make the payment and the insurance company reimburses it to you once you submit the documents. The customer, however, has to bear 5-10 per cent of the repair cost. ◆

# Action Packed

### CAN XIAOMI'S AFFORDABLE YI ACTION CAMERA BEAT THE GOPRO?

**By NIDHI SINGAL**

Action cameras have become a rage and GoPro has clearly been the leader. The recently-launched Yi Action from Xiaomi is, however, a serious contender for the top slot, but is available for sale only in China. Compact and cute, you can easily be tricked into believing it to be a toy camera. But it has got all the essential controls – the power key on the front panel also allows you to toggle between still and video modes; the shutter button at the top is used for video recording; and a small button on the left to turn on the in-built WiFi while pairing it with the app. The Yi Action does not have an LCD display. Instead, you will have to rely on the mobile app to know what mode the camera is in (battery level, SD card capacity, etc). It, however, has light indicators around the buttons to show the status of the camera.

Pairing other devices is simple with Yi Action. After downloading the app from the Xiaomi website, turn on the Wi-Fi to pair it with the camera. It shows three op-

tions – photo, video and snapshot. You can see live recording by using this app. It can also be used to change settings, start and stop recording, taking snap photos, and even view or download photos and videos. While the interface is neat, the biggest challenge was its compatibility. It worked flawlessly with Xiaomi smartphones. However, every time I disconnected the camera, Android smartphones from other brands restarted automatically. When I tried to pair it again, it simply wouldn't. I had to reset the camera. I tested it with OnePlus One, Asus Zenfone 2 and Samsung Galaxy Note 4 – the results were the same. The application is available only in Chinese. Therefore, you might feel lost for a minute, but the app is user-freindly and you will get a hang of it within minutes. This is a small glitch, which can be fixed with an update.

The performance of this action camera is worth praising. It has a wide-angle lens that captures great still images and videos. It packs in a Sony Exmor R BSI CMOS sensor and can capture images at 16MP. Videos too can be captured at different resolutions. The default setting is 1,080p (60 frames per second). When transferred to a big screen, everything appears to be sharp and crisp. There weren't any issues with the sound quality either. The app has a low-light setting to further improve the exposure when indoors. The colours looked natural and it captured good quality indoor videos without noise. Still images were excellent. You can only capture frames at 4:3 format but it offers great detailing.

This compact camera packs in a 1010 mAh battery that helps capture videos for close to an hour and a half. It does not have an internal memory and you will have to slide in a memory card to start recording. While it is great value for money, you will have to invest a bit in the accessories – the most essential ones are the lens cover and waterproof casing – which will truly make it a perfect action camera. ◆

**BAG IT OR JUNK IT:**

A value-for-money action camera; cheaper and better than GoPro 3

**PRICE:** 399 CNY (approx. ₹4,100)

**RATING:** 4/5

**PLUS:** Size, captures great still images and videos

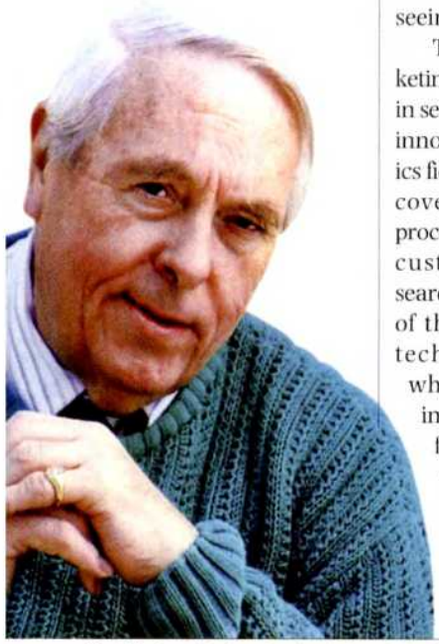
**MINUS:** App in Chinese, pairing issues with Android phones, no lens cover

*@nidhisingal*

# The Digital Menagerie

## The extraordinary development of electronic innovations has led to parallel scale economies and the collapse of consumer prices

BY
JOHN PHILIP JONES



A striking phenomenon of the 21st century is the sight of people, mostly in their teens and 20s, walking along a street using their mobile phones for gossiping and texting. It is surprising that they have so much to talk about. Personal electronics are designed for rapid and universal communications in a society that can't live without them. The entrepreneurs who started such businesses were ahead of the pack in seeing the possibilities.

Traditional mass marketing is a process of brands in search of customers. The innovators in the electronics field made the great discovery that the reverse process was possible. Their customers are on the search for brands because of the advanced level of technical innovation, which encourages high involvement. This is different from low involvement, like most grocery shopping for low-price fast-moving consumer goods (FMCG). In this, most buying is repeat purchase of brands that are already used and customers devote little thought to the process.

With expensive high-involvement goods like cars, household appliances, jewellery and clothing, the customers are price-conscious and respond to price cuts. But the American buyers ,who spend 12 hours waiting for the opening of a store that will be selling a new digital device, are not driven by low prices. They are excited by the innovation. At last, the manufacturers have found the magic secret of finding buyers in search of brands: a secret that opens fascinating opportunities for innovators as long as they are at the leading edge of technology. The range of devices is large. What is remarkable about these adjuncts to our lives is their ubiquity. They are used by people of all ages in the First, Second, and Third Worlds, by everyone from the 89-year-old Queen Elizabeth to barely literate four year olds.

There is a disharmony between low-involvement markets and the new world of digital high-involvement. The modern concept of marketing originated with low-price, low-involvement goods, with its emphasis on stability and repetition. But in North America and Western Europe, the FMCG markets have stagnated. Procter & Gamble (P&G), the leading manufacturer, achieves an annual sales growth of less than one per cent. Stability and repetition lost their relevance (and FMCG lost their dominance) when new types of personal electronics made their glamorous debut. Here, news of the innovation prompts trial and rational consideration. Apple, the leading digital firm, experienced a six per cent rise in sales in 2014. And Apple is already twice the size of P&G.

In the absence of a generic phrase to describe personal electronics, I offer one: the digital menagerie, a phrase intended to cover the devices themselves and their multiple uses. A smartphone can work as a phone, and also as an Internet link, source of vast information, Global

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AJAY THAKURI

Positioning System, camera, clock, compass, flashlight, thermometer and more. Underlying the development of digital electronics is a piece of pure drama: the extraordinary development of electronic innovations has led to parallel scale economies and the collapse of consumer prices, because printed circuits cost little to manufacture despite their complexity.

## The Inhabitants of the Menagerie

The Internet was a going concern by 1995. Cellular phones made their impact first in countries that did not have strong landlines, and a million units were in use in 1990. At the moment, in economically developed countries and among the large and growing numbers of people with discretionary income in countries that are on their way up, notably China and India, people possess a range of personal devices. And they all spend a remarkable proportion of their waking hours fully engaged with them. In most cases, their daily 'fix' is at least two hours, but some people even spend six hours or more. These devices are mostly multi-purpose and are used by people at different times and in different places and for different purposes. The very act of using the devices encourages people to experiment, with the result that new uses expand organically. This applies especially to apps, with new ones being invented continuously.

The use of the appliances has grown at an exponential rate. The number of mobile phones worldwide has risen from one million in 1990 to 6,000 million in 2015. So many calls were carried that scale economies brought about a massive reduction in the cost of long-distance, especially international calls. In aggregate, computing power doubles every 18 months, meaning that exponential increases are common in all parts of the menagerie.

## The Menagerie and the Marketing Mix

The menagerie has developed so dramatically that it has been called the Second Industrial Revolution. It would be surprising if this had not influenced the whole process of marketing, as summarised by the conventional acronym of the 'Four Ps' – product, price, place and promotion.

**Product:** The menagerie has given new interest to high-involvement brands, which are now the focus of most future activity. In the First World, low-involvement brands have stagnated, and with them the marketing objectives of stability and continuity. In the Third World, low-involvement goods continue to grow, although their share of aggregate sales is slowly declining as the menagerie surges forward.

**Price:** High-price, high-involvement brands show the greatest growth. Consumers are normally price-sensitive. In FMCG, competitors in oligopolistic markets use tactics based on price-driven sales promotions. However, in the menagerie, competition is driven by major technical innovation as the key competitive force. Price is less important.

**Place:** Devices in the menagerie are sold by specialist retailers. In contrast, FMCG are sold in grocery stores of varying sizes. In India, the small size of the 'organised' retail sector has always held back the growth of brands. The menagerie does not suffer from this impediment. It is not obvious how the menagerie can boost 'organised' retailing of FMCG, but lessons will be evident to enlightened retail entrepreneurs, for example the demonstrable efficiency of computerised stock control.

**Promotion:** This embraces sales promotions (normally price-based) and consumer advertising. The menagerie is exercising an important influence on the latter. Direct response has a special, unique place in the advertising business because its results can be easily measured. The Internet has shown itself to be a highly effective medium for direct advertising. But the medium had a false start with FMCG advertisers, who spent years trying to conduct brand-building campaigns with it. They employed 'banners', which are inexpensive per contact, but

offer no creative advantages over conventional media.

The interactive use of the Internet means a high cost per contact – a real economic problem – for FMCG but not for high-price, high-involvement brands. FMCG advertisers continue to use the Internet experimentally. One leading advertiser is employing it as a means of testing a wide range of selling appeals for its brands. The most successful appeals can then be rolled out into conventional TV campaigns. The Internet probably has a future for FMCG, but no one can predict it in any detail.

## In the Shadows

The main characteristics of the menagerie are that it is open, uncontrolled and uncensored. This may encourage vulgarity and personal abuse, but the general feeling about it is more favourable than unfavourable in a free society. It performs valuable services to vast swathes of the population in all countries. It greatly improves business efficiency. Wealth and employment are generated (entrepreneurs who started the business have become immensely rich). It is the end-product of the human intellect. Economic life has been substantially transformed.

But this is not the complete story. Many unpleasant creatures are lurking in the shadows of the menagerie. Three of the most serious ones can be identified, though they are not easy to combat. First, digital communication has been penetrated by thieves, cheats, bullies and sexual predators. Such hacking has been around for a long time. It is growing in the extent of the damage inflicted and the numbers of victims.

Second, there is unwelcome surveillance of individual users. This takes place at more than one level and represents outsiders gaining access to personal information, much of it confidential. The worst surveillance organisation is the National Security Agency in the US. The government is exceptionally protective of its secrecy, and whistleblowers are treated like criminals and forced to flee the country because they refuse to go to jail. The British General Communications Headquarters 'scoops up and stores data, including e-mails and telephone calls from millions of unsuspecting Britons.' (*The Economist*, March 8, 2014, page 59).

**The main characteristics of the menagerie are that it is open, uncontrolled and uncensored. This may encourage vulgarity and personal abuse, but the general feeling about it is more favourable...**

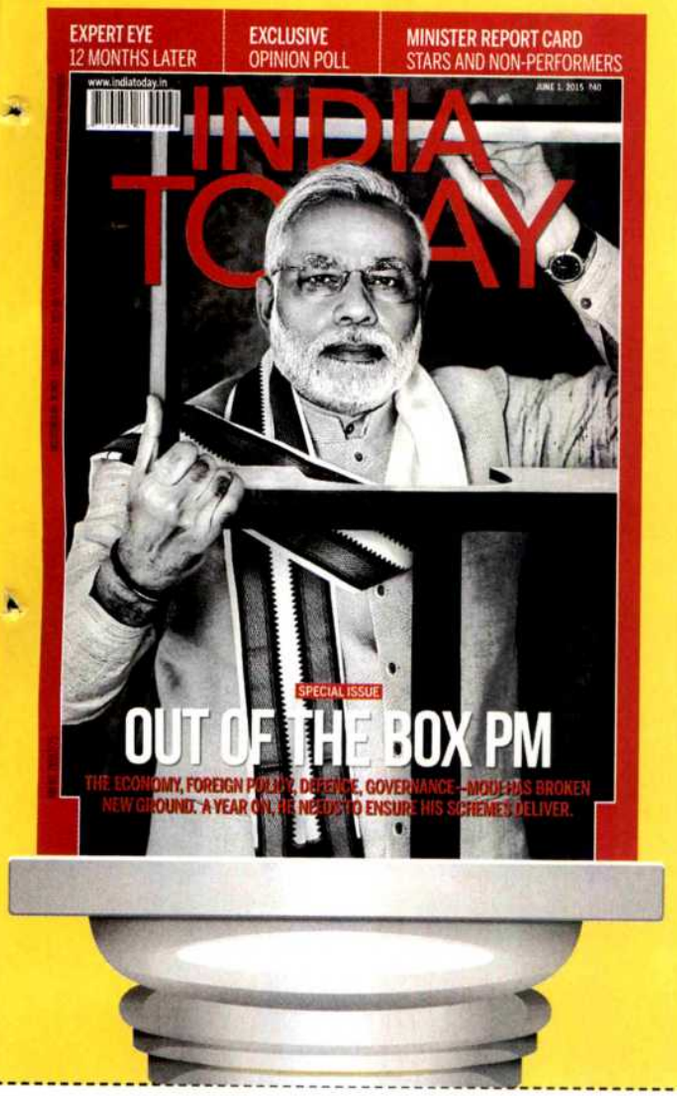
There is also private surveillance, developed for commercial purposes. This is the Internet of Things, a huge and dense network of connections between individual pieces of information. 'In the world of the Internet of Things, your car, your heating system, your refrigerator, your fitness apps, your credit card, your television set, your window shades, your scale, your medications, your camera, your heart rate monitor, your electric toothbrush, and your washing machine – to say nothing of your phone – generate a continuous stream of data that resides largely out of reach of the individual but not of those willing to pay for it or in any ways commandeer it.' (Sue Halpern, *The Creepy New Wave of the Internet*, New York Review of Books, November 20, 2014, page 23).

The third danger is the long-term effect of prolonged viewing on children. According to psychologist Dr Aric Sigman: 'Prolonged screen time can lead to reductions in attention span because of its effects on the brain chemical Dopamine.' (BBC News, October 9, 2012). American research suggests 'the Internet may actually be changing how our brains work. Too much hypertext and multimedia content has been linked in some kids to limited attention span, lower comprehension, poor focus, greater risk of depression and diminished long-term memory.' (CNN Opinion, May 21, 2012).

Of these three worrying issues, the only one that is being tackled seriously is the first one, the dangers of hacking. It is the concern of technocrats, firms in the digital industry, and various governments. But although progress is being made, the malefactors tend to keep ahead of those who are trying to defeat them. There is an overall lack of leadership and 'grip.'

It is unlikely that widespread surveillance will be reduced, mainly because governments have so much stake in it; and so now do many businesses. George Orwell foresaw the future in the late 1940s, and this future is still with us.

The potentially dangerous effects of the menagerie on children are not recognised by the main organisations in the menagerie and even the rest of society. Children spend so much time on the Internet and playing digital games that it would be extremely difficult to restrict their viewing. Yet this might be desirable for a very good reason. The stunting of children's intellectual development could result in the growth of people with less free-ranging imagination than previous generations: like the generation that produced the menagerie. How absurd it would be if the further development of the menagerie itself would be held back by self-inflicted wounds! ◆

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# On the Road Less Travelled

## Ronnie Screwvala walks you through his entrepreneurial journey, and helps you think big. By VIKRAM MALHOTRA

***Dream With Your Eyes Open: An Entrepreneurial Journey***

**By Ronnie Screwvala**

PAGES: 208

PRICE: ₹500

Rupa Publications

**What makes the book an easy yet impactful read is its conversational tone and lucid writing, peppered with the right amount of first person examples that make the reader a part of the narrative**

The first thing that grabs your attention even before the book's title is the author's picture on the front cover. Not the usual pensive or smug mug-shot but a top-angle photograph of a man at ease. Content and relaxed as he may seem, the pages that follow give you an insight into the relentless pursuit of entrepreneurial glory that Ronnie Screwvala set off his early days as a simple Grant Road boy. While the author walks you through this journey, he shares valuable insights on the milestones that formed a part of it.

The preface offers a promise to the reader: "This book hopes to demystify failure, inspire success, raise ambitions and help you think big." And Screwvala, or Ronnie as he is better known as, does full justice to this in the 13 chapters that follow.

The first couple of chapters take you through the early days of the entertainment mogul – from organising play-cum-concerts for residents of his building to selling 'balcony seats' of a vantage point to see film stars attending premieres at the theatre opposite his residence... Back then, little did the world know that this boy with an enterprising spirit would one day be the pioneer of much of the Indian media and entertainment industry as we know it.

From pioneering cable TV into India to manufacturing toothbrushes; from being in front of the camera to TV channels; from gaming to a movie studio – throughout the book, the author consistently underpins the value of the building blocks of a successful business:

- Being ready for the right opportunity and having the courage to "answer the door when opportunity knocks".
- Building and maintaining a strong team and an open work culture.
- Basing decisions as much on gut as on well-researched consumer insights.
- Pursuit of 'inflection points' that help build critical scale.
- Recognising that failure is a part of the entrepreneurial journey and not the end
- Planning for the long-haul and building a vision that stays the course; through the ups and downs

What makes the book an easy yet impactful read is its conversational tone and lucid writing, peppered with the right amount of first person examples that make the reader a part of the narrative. This flavour is best highlighted in the chapter titled *The Outsider*, where Ronnie gives readers the skinny on how he and his team at UTV thought out of the box, defied convention, stuck to their guts and created a movie studio business against all odds.

With bullet point summaries at the end of each chapter and a manual-like FAQs section at the back, this book has what it takes to be compulsory reading at all technical and business schools. Furthermore, to serve as a roadmap for entrepreneurs, aspiring and existing.

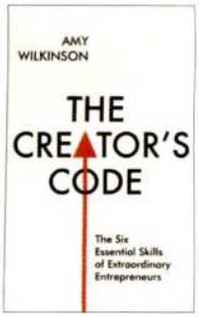
Through the book, Ronnie emerges as a 'lazer-sharp' (pun intended as an ode to the author's toothbrush brand and now also a part of the brand name of his latest venture) combination of mind and gut who empathises that "it can be done".

In his 50s and ready to start his second innings, the author's accomplishments can be best summed up by defining entrepreneurship as a genesis, journey and destination that all lie within. ◆

*The reviewer is founder and CEO of Abundantia Entertainment, and former COO of Viacom 18 Motion Pictures*

# *It's All About Synergy*

## The book talks about six traits today's entrepreneurs must possess. By SWATI BHARGAVA




***The Creator's Code***
**By Amy Wilkinson**
PAGES: 240
PRICE: ₹1,045
Simon & Schuster

The book revolves around new-age entrepreneurs who spotted opportunities, invented products, and built businesses – even $100 million businesses. Amy Wilkinson's rigorous interviews with the founders of LinkedIn, Chipotle, eBay, Under Armour, Tesla Motors, SpaceX, Spanx, Airbnb, PayPal, Jetblue, Gilt Groupe, Theranos and Dropbox, and research in different fields led her to pen six key skills which a new-age entrepreneur should or must possess.

■ **Find the gap:** The creators have an innate ability to spot opportunities and convert them into million-dollar enterprises. They keep their eyes open for fresh potential, a vacuum to fill, or an unmet need. Based on their approaches, Wilkinson has characterised these creators under three heads, namely Sunbirds, Architects and Integrators..

■ **Drive for daylight:** This concept is borrowed from race car drivers who say that "the trick to managing speed at 200 miles per hour is to drive for daylight". They go too fast to navigate by the lines on the pavement or the position of their fellow drivers. Instead, they focus on the horizon and, at high speeds, their hands follow their eyes. Similarly, creators "navigate around immediate obstacles by keeping their long-term mission in mind... Creators don't benchmark themselves against the competition or focus on industry norms... They set their sights on the horizon, scan the edges, and avoid nostalgia."

■ **OODA loop** (observe, orient, decide, act): The notion comes from John Boyd, an Air Force fighter pilot who "crafted a framework for making rapid decisions that would ensure success in fast-changing environments. It is as pertinent to business [and to trading] as it is to aerial combat".

■ **Fail wisely:** We've all read the advice to fail early and often, but how much failure is acceptable? The author found that "a surprising number of creators decide that ratio ahead of time. They aim not for perfection but to ensure that they take enough risk".

■ **Network minds:** Creators demonstrate an ability to harness on the cognitive diversity by assembling thinkers to tap varied perspectives.

■ **Gift small goods:** Creators unleash generosity by helping others, often by sharing information, pitching in to complete a task, or opening opportunities to colleagues.

When all these traits come together, magic happens: customers become evangelists, employees turn into loyalists and investors back the company beyond short-term expectations. ◆

*The reviewer is co-founder, CashKaro.com, India's largest Cashback and Coupons site*

## Strategy Rules

THE FORTNIGHTLY PICK

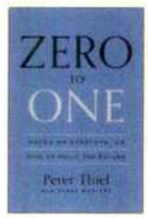
By David B. Yoffie & Michael Cusumano
Harper Business
Price: ₹399

The book looks at how Bill Gates, Andy Grove and Steve Jobs build companies collectively worth $1.5 trillion.

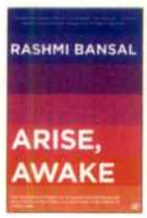
## BUSINESS BESTSELLERS*

*Dream, Dare, Deliver^*
By Priya Kumar
Embassy Books
Price: ₹495

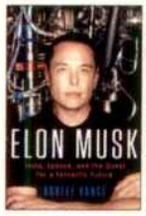
*Dream with Your Eyes Open*
By Ronnie Screwvala
Rupa Publications
Price: ₹500




*Zero to One*
By Peter Thiel
Random House
Price: ₹499




*Arise, Awake*
By Rashmi Bansal
Westland Books
Price: ₹200




*Elon Musk: Inventing the Future^^*
By Ashlee Vance
Virgin Books
Price: ₹699

*Top books by sales for May 10-23, 2015; Includes only books released after April 1, 2014; Publication date: ^June 3, 2015; ^^June 10, 2015
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**ABC Consultants Private Limited**
Head Business Strategy
**Location:** Mumbai
**Job ID:** 16815404
**Description:** Research, analyze and identify the strategic business plan and roadmap for the Ecommerce business.

**Financial Software & Systems Private Limited**
Head - Consulting
**Location:** Chennai
**Job ID:** 16868210
**Description:** 12-15 years exp with considerable consulting/advisory expertise in the Payments domain coupled with exposure to business development and account management activities.

**Careerist Management Consultants Private Limited**
Assistant Vice President - Collater Management
**Location:** Mumbai
**Job ID:** 16935329
**Description:** Manage delivery across multip teams in collateral management ensuring SL adherence, •Identify potential risk areas an ensure implementation of effective controls.

**KRM Global**
Placement Head
**Location:** Gurgaon
**Job ID:** 16871652
**Description:** Handle Placements PAN IndiaCo-ordinate with the Placement Managers across all the regions Willing to undertake training where appropriate.

**Right Connect**
VP / Business Head
**Location:** Mumbai
**Job ID:** 16885417
**Description:** Business Head is responsible fc overall profit center for Mumbai Locatio Recruit, strategize the right resources keepi industry standards in mind etc.

**People Value Consulting**
Senior Manager-Financial Reporting & Closing
**Location:** Hyderabad / Secunderabad
**Job ID:** 16836610
**Description:** Responsible for preparation of month end and quarter end financial reports, Preparation of Board and Corporate Executive Team slides etc.

**Career Avenues India Private Limited**
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**Infogain India Private Limited**
Senior Developer-OBIEE
**Location:** Noida
**Job ID:** 16932413
**Description:** The resource should be a skilled OBIEE (BI) report developer, He/she should have experience in OBIEE 10G and 11G versions.

**Oracle India Private Limited**
Core Java with Multi-threading
**Location:** Noida
**Jobs ID:** 16918678
**Description:** Experience on Core java - Coding and Multi-threading, Inheritance Develop the data structures - Object Oriented Designs Proficient in Problem solving.

**MSCI Services Private Limited**
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**Location:** Mumbai
**Job ID:** 16644556
**Description:** Looking for a strong java object oriented software engineer to be part of a talented software development team in Mumbai.

**Akshay Software Technologies**
ESB Tester
**Location:** Mumbai
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**Description:** Looking for ESB Testers with experience in XML, Web services, DB Testing, SOP UI, MQ Messages.

**Yash Technologies Private Limited**
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**Location:** Hyderabad / Secunderabad
**Job ID:** 16948517
**Description:** Must have completed graduation (B.Sc. (Comp.Sc), BCA, B.S, B.E/B.Tech) in or after year 2010.

**Fiserv India Private Limited**
Dot Net
**Location:** Pune
**Job ID:** 16916886
**Description:** Hands-on experience implementing and consuming WCF and/or Web services.

**Exilant Technologies Private Limited**
BO Developer
**Location:** Bengaluru / Bangalore
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**Catalyst Consulting Services**
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**Multi Recruit**
Business Development Executive
**Location:** Bengaluru / Bangalore
**Job ID:** 16933190
**Description:** Should have excellent verbal and written communication skills in English.

**Roland and Associates**
Digital Marketing Specialist
**Location:** Bengaluru / Bangalore
**Job ID:** 16939087
**Description:** Must have strong verbal and written communication skills, excellent analytical and problem solving skills.

**Spring People Software Private Limited**
Business Development Manager
**Location:** Bengaluru / Bangalore
**Job ID:** 16884215
**Description:** Looking for experienced, result oriented candidates to manage corporate/enterprise sales to help us take the revenue growth to the next level.

**YD Tech Sourcing Private Limited**
Business Development (Logistics)
**Location:** Bengaluru / Bangalore
**Job ID:** 15263872
**Description:** Working experience in logistics / Freight Forwarding or supply chain, Good understanding of logistics concepts, Analytical skills.

**CitiusTech**
MBA- Marketing Manager
**Location:** Mumbai, Thane
**Job ID:** 16809361
**Description:** Supports and enhances corporate branding (incl. defining corporate branding guidelines, consistency of logo/usage) and branding for key CitiusTech solutions – BI-Clinical, Register4Health, etc.

**Angel Broking Limited**
Sales/ Marketing Professional
**Location:** Baroda
**Job ID:** 16944848
**Description:** Should have good market understanding and well networked in the market.

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Manager - Statutory Reporting
**Location:** Chennai
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**2COMS Consulting Private Limited**
Process Associate
**Location:** Kolkata
**Job ID:** 16930302
**Description:** B.com/M.com/MBA (finance) graduates having a strong foundation in accounting principles with a minimum exposure of 6months in accounting are needed.

**SPEED Consulting Private Limited**
Sr Associates/Asst Manager
**Location:** Chennai
**Job ID:** 16870047
**Description:** Work closely with Units in GSO to ensure that the defined process controls are working.

**People Gamut HR Solutions**
Chartered Accountant/CA
**Location:** Mangalore, Udupi
**Job ID:** 16928294
**Description:** Sound accounting background, Excellent social knowledge about latest happening, Excellent Managerial skills to handle a team of 15 young CA's.

**Ikya Human Capital Solutions Private Limited**
Financial Analyst
**Location:** Bengaluru / Bangalore
**Job ID:** 16946656
**Description:** Looking for Financial Analyst with good communication skills.

**Orissa Doot Private Limited**
Accounts Executive
**Location:** Bhubaneshwar
**Job ID:** 16939947
**Description:** Must have atleast 1 year experience in Accounting.

**Invent HR India Services Private Limited**
Manager - Accounts and Finance
**Location:** Mumbai
**Job ID:** 16938431
**Description:** Review of monthly and Annual Balance Sheet, Profit & Loss accounts and Annual report and Dealing and coordinating with Auditors, Ensuring timely completion of internal and statutory audit of the company.

**VCentric Technologies Private Limited**
AGM Indirect Taxation
**Location:** Delhi
**Job ID:** 16937986
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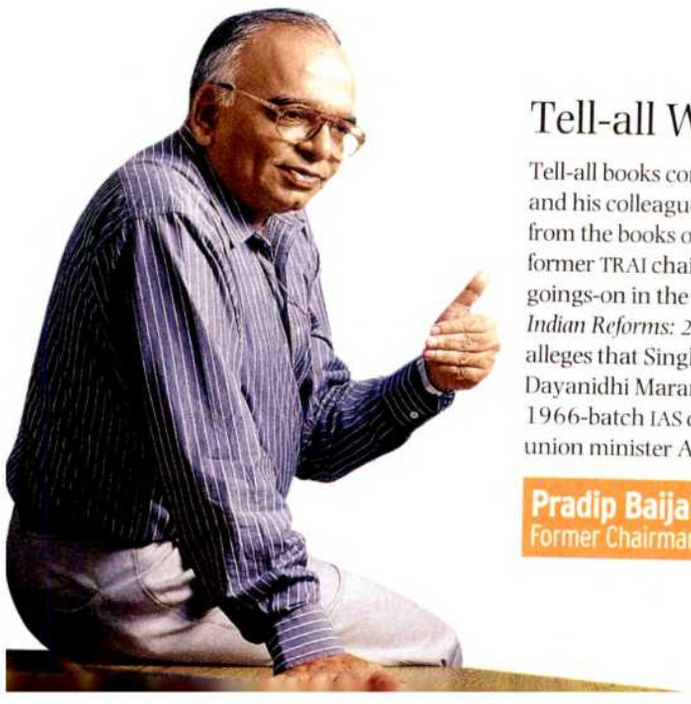
QAMAR SIBTAIN

**Nita Ambani**
Owner, Mumbai Indians

## Sporty Ambani

When **NITA AMBANI** became the face of the sports business of Reliance Industries, she was considered a misfit. However, her association with sports is now beginning to pay off. Not only has the Reliance Industries-owned Mumbai Indians won the 2015 season of the Indian Premier League (IPL), the ₹168 crore Indiawin Sports, the Reliance subsidiary which owns Mumbai Indians, is also on the path to profitability. It narrowed its losses to ₹3.87 crore last fiscal from ₹5.04 crore in the previous one. Ambani's association with football (Indian Super League) has also paid off. ISL was watched by 429 million viewers in India, which was two-and-half times more than the viewership of FIFA World Cup in the country last year.

AJITA SHASHIDHAR



**Pradip Baijal**
Former Chairman, TRAI

## Tell-all Woes

Tell-all books continue to haunt former Prime Minister Manmohan Singh and his colleagues in the previous UPA government. After feeling the heat from the books of Sanjaya Baru, Natwar Singh, P.C. Parakh and Vinod Rai, former TRAI chairman **PRADIP BAIJAL** has decided to spill the beans on the goings-on in the previous government. In his new book, *The Complete Story of Indian Reforms: 2G, Power and Private Enterprise - A Practitioner's Diary*, Baijal alleges that Singh asked him to cooperate with the then telecom minister Dayanidhi Maran, who warned Baijal to toe his line. According to Baijal, a 1966-batch IAS officer, the CBI allegedly threatened him to implicate former union minister Arun Shourie and industrialist Ratan Tata in the 2G scam. Baijal, 72, was being probed in several cases, including the 2G scam and disinvestment cases.

MANU KAUSHIK

**A. Vellayan**
Chairman, Murugappa Group

## Stepping Down

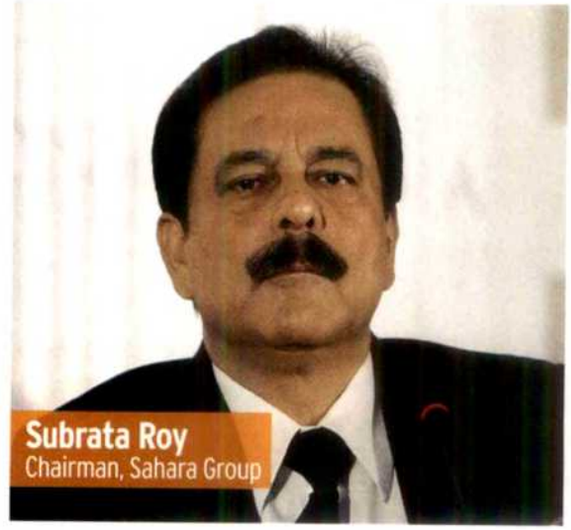
**A. VELLAYAN,** Chairman of the 115-year-old Murugappa Group, has stepped down after market watchdog SEBI charged him and three others with insider trading. The Chennai-based group has revenues of close to $5 billion. In a statement, Vellayan's office said he was also stepping down as Chairman of Coromandel International and EID Parry India 'in keeping with family values and tradition' until the matter was resolved.

VENKATESHA BABU

## No Money, Still Bidding

Sahara Group may not have ₹10,000 crore to post bail for its chief patriarch **SUBRATA ROY**, who has been locked up in Tihar Jail for the past 14 months in a contempt of court case involving a ₹24,000 crore refund to investors, but that hasn't stopped it from bidding for the UK-based Grosvenor House. Reports suggest the group's subsidiary, Aamby Valley Mauritius, is among the top bidders to acquire Grosvenor House, valued around ₹6,150 crore. It will be interesting to see how the group manages to arrange money if it does, indeed, win the bid.

MAHESH NAYAK



**Subrata Roy**
Chairman, Sahara Group

NISHIKANT GAMRE

**Yash Birla**
Chairman & CEO, Yash Birla Group

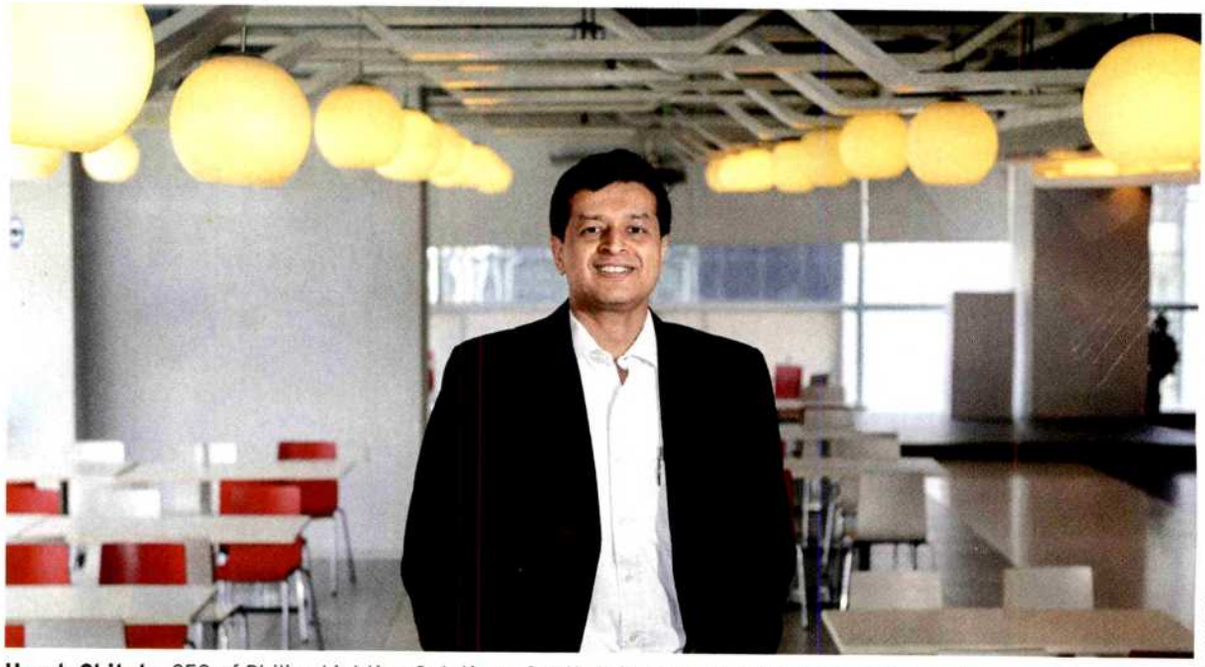
## Tough Times

Tough times continue for **YASHOVARDHAN BIRLA**, Chairman and CEO of the Yash Birla Group. The flamboyant businessman's name now figures in the list of people holding black money in Swiss banks. Earlier this year, the Economic Offences Wing had charged Birla and the directors of one of his group's companies, Birla Power Solutions, in a cheating case. The firm had allegedly raised ₹250 crore from investors for a power project, and re-routed the money to buy land and shares in the name of other group companies, once the project failed to take off. Further, a top executive was arrested for possessing drugs. Birla, now 48, has been heading the group, which has some 20 subsidiaries in businesses ranging from steel wires to health and education, since the age of 23 after his parents died in an air crash in 1990.

P.B. JAYAKUMAR

Read interview with Harsh Chitale at businesstoday.in/philips-chitale

# "Everything in lighting will be digital probably two years down the road"



VIVAN MEHRA

**Harsh Chitale**, CEO of Philips Lighting Solutions, South Asia, recently joined the company from HCL Infosystems, where he was the Managing Director and CEO. In an interview with **Goutam Das,** he talks about his new role and the changing landscape in lighting. Excerpts:

***Between HCL and Philips, what are the synergies in your role?***

HCL had a distribution business model – we distributed consumer electronics, phones, etc. Equally big is the distribution reach of Philips Lighting. In every remote part of the country, you will find a Philips bulb. That is one common synergy. Second, all HCL products were digital. In Philips, one-third of the products have already become digital (in value) and the rate at which digitalisation is happening in lighting, everything will be digital probably two years down the road. In electronics, life cycles are short. An incandescent bulb, even after 10 years, remains the same... Rapidly evolving product life cycles, compressing technology cycles, faster obsolescence are all identical between the world of HCL and the new world of Philips Lighting. Third is the world of systems and services, of doing end-to-end projects, managing them. Philips is beginning to do that. So, there are synergies in the business models, distribution, managing digital products, systems and services.

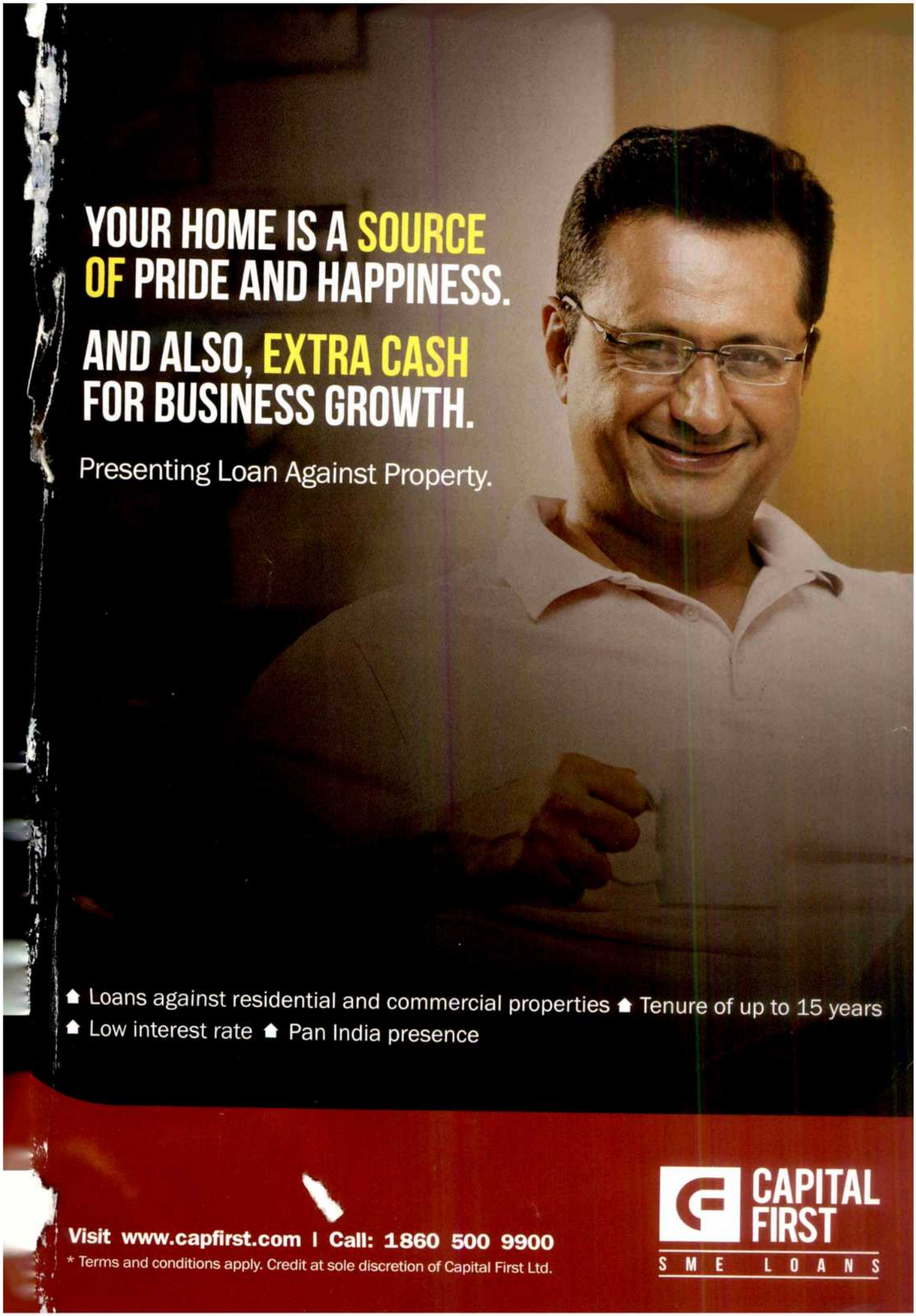
***Who gave you the best piece of advice when you decided to join Philips?***

You look around, you talk to friends. But I didn't seek advice. I was tracking what was happening in the lighting world. What was happening was fascinating...

***What is that fascinating change?***

Lighting used to be an FMCG-kind of a product – use and throw. Now it has become a digital product with LED coming in. You can control it remotely, you can programme it, configure it, it can give you different colours, it can be used for many things beyond lighting... A ₹10 bulb first became a ₹150 CFL [compact fluorescent light]; as soon as it became LED, it became electronic. Now the same light can act as a communication device, entertainment device, a healthcare tool because a human body is highly sensitive to light. There is a biological, hormonal effect that light has on you. It has a value in terms of pre-operative and post-operative care.

At a household level, it [lighting] was a utility. You replaced it when something failed. Now it is becoming lifestyle, with people spending ₹10,000, ₹20,000, ₹50,000 on chandeliers... Then there is [our concept of] 'light as service'. We have done this work for leading corporates, including IT companies... ◆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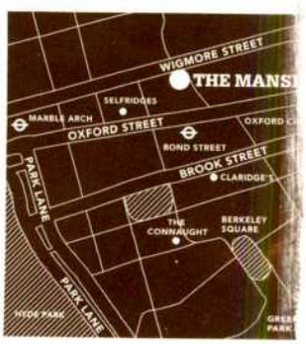
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